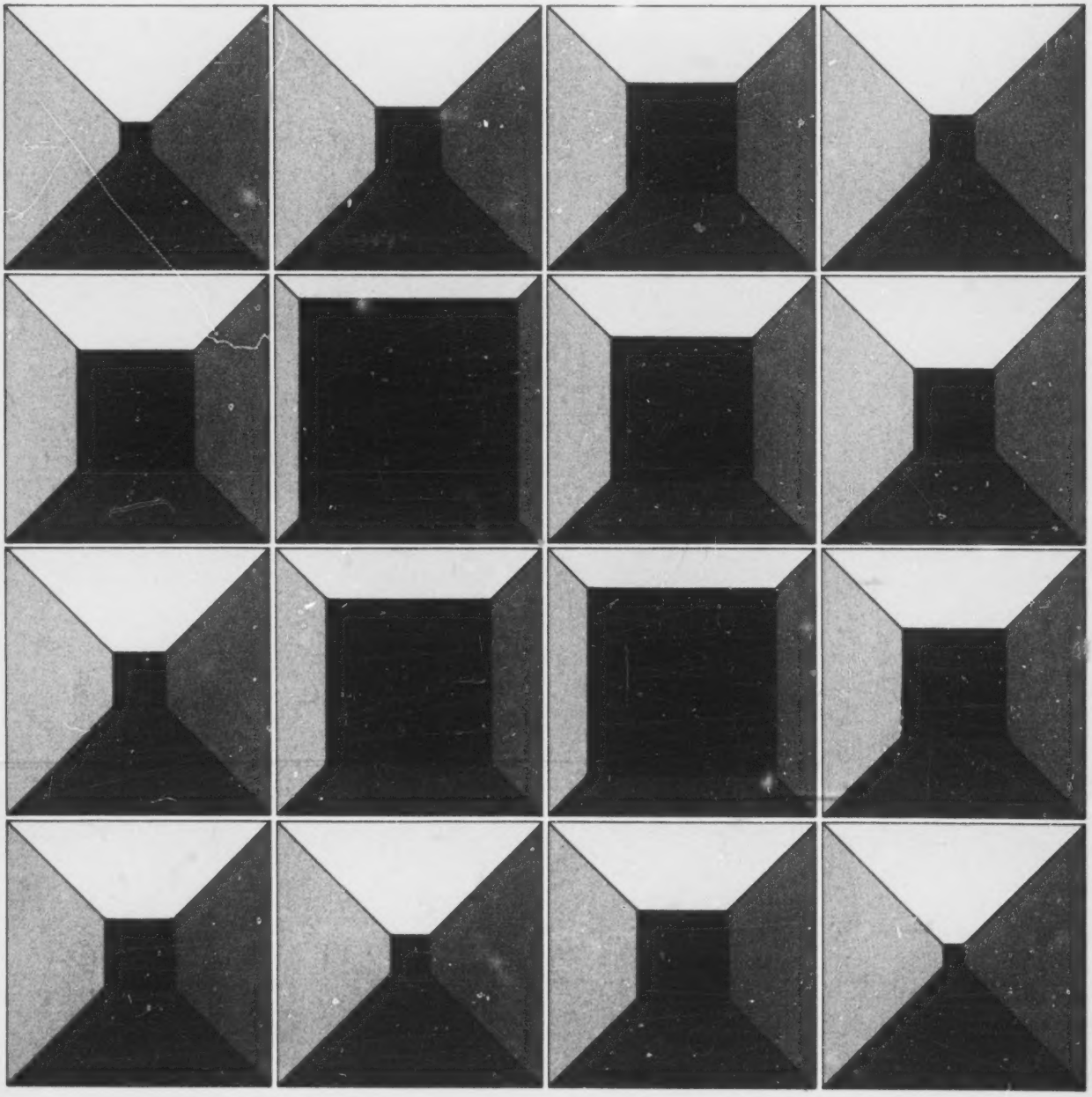
A CBO Study

Improving Youth Employment Prospects: Issues and Options

February 1982

Congress of the United States
Congressional Budget Office



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IMPROVING YOUTH EMPLOYMENT PROSPECTS:

ISSUES AND OPTIONS

The Congress of the United States
Congressional Budget Office

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PREFACE

This study was prepared at the request of the Senate Budget Committee. It analyzes present federal programs affecting the youth labor market and considers a number of alternative options. In accordance with the mandate of the Congressional Budget Office (CBO) to provide objective and impartial analysis, the paper offers no recommendations.

Improving Youth Employment Prospects was written by Sandra Christensen of CBO's Human Resources and Community Development Division, under the supervision of Nancy M. Gordon and Martin Levine. Many persons within CBO, including George R. Iden, Allen Kraus, Maureen McLaughlin, Stacey Sheffrin, and James M. Verdier, contributed by reviewing the manuscript. Ben Steffen and Howard Levine provided computer assistance. In addition, many persons outside CBO provided valuable advice and information, including Stephen Baldwin, Gordon Berlin, Patricia Brenner, Charles Brown, Marian Craft, Henry David, Howard Fullerton, Robert Guttman, Andrew Hahn, Norman Harvey, Miriam Johnson, Sandra King, Charles Knapp, John Lepley, Robert Lerman, Alan Moss, David O'Neill, Larry Orr, David Roberts, Stuart Rosenfeld, Tom Ryan, Robert Taggart, Randall Weiss, and Mark Wolfe. Francis Pierce edited the manuscript. Mary Braxton typed the several drafts and prepared the paper for publication.

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February 1982

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SUMMARY

In coming months, the Congress will have an opportunity to reexamine the federal government's role in the youth labor market. The authorizing legislation for the Comprehensive Employment and Training Act (CETA) expires in 1982. Authorization for the Targeted Jobs Tax Credit (TJTC)--which provides a subsidy for the employment of certain disadvantaged groups--will also expire in 1982. Further, although the Vocational Education Act (VEA) is now authorized through 1984, the Administration may submit proposals for changes this year. Finally, the Congress may be asked to consider an additional economic development program (enterprise zones) and a youth subminimum wage.

NATURE OF THE PROBLEM

In 1981, the unemployment rate among white youths was 15.0 percent, more than twice the average rate for the labor force as a whole. For nonwhite youths, the rate was 34.6 percent, more than four times the average rate (see Summary Table 1).

SUMMARY TABLE 1. UNEMPLOYMENT RATES, 1981 (In percents)

Entire Labor Force	Youths (16-21)	White Youths (16-21)	Nonwhite Youths (16-21)
7.6	17.3	15.0	34.6

SOURCE: Bureau of Labor Statistics.

The youth employment problem has two aspects. One is the difficult transition from school to work. Even youths who are job-ready--who have basic academic skills--are more likely to experience unemployment than adults. This is because they are more likely than adults to be new entrants to the labor market or to change jobs. As they mature, building up work experience and seniority, most will settle into stable employment.

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Some youths, however, experience more lasting difficulty upon entering the labor market. Nearly two-thirds of measured youth unemployment in 1978 was experienced by the 10 percent of the youth labor force that was unemployed for 15 weeks or longer. This group is disproportionately black and poor, and many of them lack basic academic skills. Although most of them ultimately find some employment, they are likely to be plagued by low pay and recurrent unemployment in later years.

ALTERNATIVE POLICY APPROACHES

Efforts to alleviate the employment problems of young people can seek to:

- Increase employment demand for youths;
- Enhance their job qualifications; or
- Improve their ability to negotiate the transition from school to work or from one job to another.

For those who lack basic academic skills, the second approach--enhancing job qualifications--must take priority. For the others, who are adequately prepared for work by the school system, the transition into stable employment could be facilitated by providing for career exploration, job-search training, and other placement services before leaving school. But neither of these approaches can succeed if the job market itself is inadequate. This raises the issue of what the federal government can do to increase employment demand.

Options for Increasing Employment Demand

A higher level of economic activity would help not only to reduce youth unemployment rates, but also to reduce the differential in rates between youths and adults as well as between white and minority youths. Youths and minorities gain relatively more than others in the labor force when the economy is prospering and they lose relatively more when it is weak. If the unemployment rate for adult males was reduced by 1 percentage point, it is estimated that the unemployment rate for white youths would be lower by 1.5 percentage points and that the rate for nonwhite youths would be lower by 2.5 percentage points.

Reducing unemployment by stimulative macroeconomic policies could, however, fuel further inflation, so that other approaches might be preferred. But since average unemployment is expected to be well above its 1981 level throughout 1982 and into 1983, in part because of recent efforts to reduce inflation, it will be more difficult for programs intended to alleviate youth employment problems to succeed.

Leave the Minimum Wage Unchanged. One noninflationary way in which the federal government could increase employment demand for youths, with no immediate budgetary cost, would be to keep the minimum wage at its current level--$3.35 an hour. It appears that the minimum wage is a significant barrier to employment for youths because their lack of experience reduces their value to employers. The barrier set up by the minimum wage is even higher for disadvantaged youths. No further minimum wage increases are scheduled in current legislation, and inflation is expected to reduce the real value of the current minimum wage by almost 25 percent by 1985. This could raise youth employment by 2.5 percent and achieve employment gains for low-wage adults as well. Allowing youths to work at a submininum wage might double their employment gains, but perhaps one-third of the jobs gained by youths would come at the expense of displaced low-wage adults.

Expand Employment Subsidies. Jobs for disadvantaged youths might be increased by larger employment subsidies, which might be provided nationwide or only in distressed areas through economic development programs. Unfortunately, the Targeted Jobs Tax Credit--which is the principal federal employment subsidy program now--does not appear to have been very effective at increasing employment demand for disadvantaged youths. Employers claimed credits for fewer than 3 percent of newly hired youths who were eligible. Further, it is estimated that 82 percent of youths who were claimed would have been hired without the subsidy, so that a substantial proportion of program costs has been dissipated in windfalls to employers. Although the average first-year revenue loss for each full-year full-time employee for which the credit is claimed is $1,950, it is estimated that the revenue loss for each new youth job created has been much higher--about $10,800--because of the windfalls (see Summary Table 2). Recent amendments to the program--eliminating retroactive certification of eligible employees, for example--will probably reduce the potential for windfalls to employers, thereby lowering the federal cost per new job, but the already-low rates of use by employers will probably drop as well so that the TJTC is not likely to be an effective way to increase employment among disadvantaged young people.

SUMMARY TABLE 2. COMPARISON OF PROGRAMS TO INCREASE EMPLOYMENT DEMAND FOR DISADVANTAGED YOUTHS

	1982 Costs per Full-Year Full-Time Slot Funded by the Program (dollars)	Minimum Proportion of Slots That Would Not Exist Without the Program	Maximum 1982 Costs per Full-Year Full-Time Slot Created by the Program (dollars)	Long-Term Gain in Employability
Targeted Jobs Tax Credit	1,950[a]	0.18[b]	10,833	Some gain due to accumulation of private-sector work experience.
CETA Work Experience	8,800[c]	0.67[d]	13,134	Little or no gain, since the work experience accumulated in public programs is apparently not valued by employers.

a. This assumes that the employer's tax rate is 35 percent, that the annual earnings of the employee are $6,000, and that the employer receives a 50 percent subsidy of these wage costs.

b. This may increase under the provisions of the amendments passed in 1981, which eliminate retroactive certification. If the proportion doubled--to 36 percent--the cost per full-year slot created would drop by half, to $5,417.

c. This estimate was obtained by annualizing the slot cost--$980--for the Summer Youth Employment Program, which provides 200 hours of employment for each participant.

d. It is estimated that no more than one-third of disadvantaged youths in CETA work experience programs would have found alternative employment.

Expand Work Experience Programs. Although they do not appear to enhance their future employability, CETA work experience programs have provided large numbers of jobs for disadvantaged youths--more than 20 percent of the jobs held by black youths at the programs' peak in 1978. The federal cost for each new full-time job created may be as high as $13,000--higher than the maximum cost per new youth job created by the TJTC (see Summary Table 2). In addition, because employers apparently do not value the work experience accumulated in public programs, the private-sector work experience accumulated through the TJTC is more likely to result in some long-term gain in employability.

Options for Enhancing Job Qualifications

The school system is the major public program for developing employability among youths. The schools are successful at instilling basic academic skills for most youths, who may then develop further occupational skills at postsecondary institutions or on the job.

Youths who lack basic literacy skills when they leave school, however, are increasingly unemployable in the U.S. economy. It is estimated that about 12 percent of high school students are functionally illiterate, and employer surveys indicate that it is the absence of basic literacy, not the lack of occupational skills, that is the principal barrier to their employment.

Expand Job Training Programs. One purpose of public employment and training programs is to provide a second chance to those who have failed to obtain an adequate preparation for employment from the schools. Experience with the Job Corps indicates that severely disadvantaged youths benefit from a combination of remedial basic education and well-supervised work or training, where the latter serves in part to motivate them to continue their education. Except for the Job Corps, however, most CETA programs have not been very effective at increasing employability for disadvantaged youths, because they typically provide only work experience.

More emphasis on education or training in other CETA programs for youths might be obtained either by mandating training requirements, or by modifying performance standards to consider long-term earnings gains. Since current performance standards emphasize costs per placement, program administrators are encouraged to favor short-duration work experience programs, even if followed by

a placement no better than could have been obtained prior to participation, over lengthier and more expensive instructional programs that might ultimately lead to better jobs.[1]

Redirect Federal Expenditures for Secondary Education. Basic academic and job skills might be developed through the vocational education system, but vocational education programs, especially at the secondary level, have not been markedly effective at increasing the long-term employability of youths.

Federal funds currently provided to high schools under the Vocational Education Act (VEA), most of which go to supplement general state and local programs of occupational training, might be used instead to provide remedial education in basic academic skills. This might be accomplished by reallocating these funds to Title I of the Elementary and Secondary Education Act (ESEA) and earmarking them for use in the high schools. If all funds appropriated for the 1981-1982 school year under the VEA were reallocated, approximately one million more high school students could be served. Currently, less than 5 percent of federal funds for compensatory education under the ESEA go to high schools.

Experience in the Job Corps with self-paced programs indicates that remedial education can be successful for disadvantaged youths, although it is not certain that this success could be duplicated in a traditional high school setting. Prospects for success might be enhanced by using a jobs program to motivate participants. Results from the Youth Incentive Entitlement Pilot Projects--funded under CETA Title IV-A--indicate that some disadvantaged students can be induced to persevere with their education by guaranteeing them part-time jobs while they do so. A part-time jobs program combined with in-school compensatory education would be a less costly alternative to the Job Corps--with an estimated cost per service year of $5,550 compared to $14,100--and might result in substantial benefits for some disadvantaged youths (see Summary Table 3). Year-long jobs could be provided for about 170,000 in-school youths at 1982 funding levels for CETA Title IV youth programs--excluding the Job Corps. Intensive programs like the Job Corps would probably continue to be necessary for more seriously disadvantaged out-of-school youths, however.

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1. The cost of training programs could be reduced, however, by reducing or eliminating the stipends paid to participants.

SUMMARY TABLE 3. COMPARISON OF PROGRAMS TO ENHANCE JOB QUALIFICATIONS

Program	1982 Costs per Full-Year Slot Funded by the Program (dollars)	Long-Term Gain in Employability
Job Corps	14,100	Substantial gain in earnings and employment.
Youth Incentive Entitlement Pilot Project	4,900	Increased school attendance. Effect on employability could be substantial if combined with effective education.
Compensatory Education in High Schools	650	Substantial gain probable.

Options for Facilitating Labor Market Transitions

Most high schools provide little in the way of job placement services or instruction in how to look for a job, but placement assistance is a relatively low-cost activity with several potential benefits. It could lower the average unemployment rate for youths by enabling them to find more satisfactory jobs more quickly. It might also reduce the need for employment and training programs, by enabling youths with adequate academic skills to find jobs on their own. And it could help to ensure that those who participate in employment and training programs ultimately find jobs.

Programs in job-search training have been among the most effective in the mix of demonstration projects carried out in recent years under CETA, the Work Incentive (WIN) program, and the Employment Service. Such programs provide labor market information, guidance in how to prepare a resume, and training in interviewing skills. Participation in short-duration programs like the Job Track--which provides two to five days of training at a cost

of $200 per participant--can cut in half the length of time required to find a job (see Summary Table 4). Short-duration programs are not likely to produce long-term gains in employability, though. Year-long programs for high school seniors like the School-to-Work Transition program cost more per participant--about $1,100--with no greater short-term gains in employment, but preliminary results from an eight-month followup suggest that they may be more effective at increasing long-term employability.

SUMMARY TABLE 4. COMPARISON OF JOB SEARCH ASSISTANCE PROGRAMS

Program	1982 Cost per Participant (dollars)	Average Number of Days to Find a Job		Employment Rate Three Months After Program Completion (percent)	
		Participants	Non-Participants	Participants	Non-Participants
School-to-Work Transition[a]	1,100	N/A	N/A	68	64
Job Track[b]	200	13	25	44	38

N/A = Not available.

a. Provided five to ten hours of instruction weekly--as a regular high school course--during the junior or senior year.

b. Provided two days of instruction, followed by three days of support services including counseling and use of telephones, typewriters, and copying machines.

The Employment Service could be encouraged to offer more instruction in job-search skills by providing additional funds earmarked for that purpose. In addition, some federal funds currently provided to high schools under the Vocational Education Act might be earmarked to provide more placement services, including job-search training, to students leaving school. All high school students needing such services in 1982 could be provided with instruction such as was provided in the Job Track program at a total cost of $260 million, which represents about 40 percent of funds appropriated under the VEA for use in the 1981-1982 school year. Only half these students could be served in a long-duration in-school program, however, even if all VEA funds were earmarked for this purpose.

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CHAPTER I. INTRODUCTION

In response to rising youth unemployment rates, the Congress has attempted in recent years to focus federal labor market programs more heavily on disadvantaged youths. Expenditures under the Comprehensive Employment and Training Act (CETA) have been targeted almost exclusively on the economically disadvantaged, with a substantial proportion of total expenditures earmarked for services to youths. Federal expenditures for vocational education under the Vocational Education Act (VEA) have been increasingly directed toward the disadvantaged. In 1978, the Targeted Jobs Tax Credit (TJTC) was introduced to subsidize the employment of selected disadvantaged and youth groups.

Debate over reauthorization of these programs is expected during fiscal year 1982.[1] There may also be debate about modifications of the minimum wage provisions of the Fair Labor Standards Act (perhaps in the form of a subminimum wage for youths), and about a new economic development program (enterprise zones).

THE YOUTH EMPLOYMENT PROBLEM

The unemployment rate for youths is high relative to the rate for adults, and the rate for minority youths is high relative to the rate for white youths (see Table 1). In 1980, nearly half of the unemployed were youths between the ages of 16 and 24, although these youths comprised only a quarter of the total labor force. Among youths, the unemployment rate for nonwhites was at least twice that for whites in the same age group. Further, a smaller proportion of nonwhite youths are counted in the labor force statistics, suggesting that some of them have dropped out of the labor market from discouragement--a form of hidden unemployment.

1. Authorization for the TJTC expires in December 1982. Authorization for CETA expires in September 1982, although there is provision for an automatic one-year extension if neither House of Congress has completed action on reauthorization by September 10, 1982. Authorization for the VEA was recently extended through September 1984, but the Administration has proposed changes in the VEA for 1983.

TABLE 1. UNEMPLOYMENT RATES IN THE CIVILIAN POPULATION, BY AGE, RACE, AND SEX: 1981 (In percents)

	Youths (16-19)	Youths (20-24)	Adults (25-54)
All Males	20.1	13.2	5.4
White males	17.9	11.6	4.9
Nonwhite males	38.3	24.9	10.3
All Females	19.0	11.1	6.3
White females	16.6	9.1	5.5
Nonwhite females	38.6	24.5	10.8

SOURCE: Bureau of Labor Statistics.

Although the size of the youth labor force will drop during the 1980s, thereby reducing youth unemployment relative to the total, there will remain a core of disadvantaged youths who are likely to face chronic employment problems. These youths--who are disproportionately black and poor--will probably continue to require assistance to overcome their economic and educational handicaps if they are to become productive members of the labor force.

LEGISLATIVE BACKGROUND AND ISSUES FOR THE FUTURE

The federal government has been actively involved in employment and training programs for at least 20 years, but the focus of its efforts has shifted over time. The federal role in employment and training programs began on a significant scale with passage of the Manpower Development and Training Act (MDTA) in 1962, and the VEA in 1963. Their initial purpose was to provide occupational skill training to new labor market entrants and to those already in the labor force who had been displaced by new technology, without regard to income.

More recently, federal employment and training efforts have been increasingly targeted on the economically disadvantaged. The VEA was amended in 1968 and again in 1976 to direct a higher proportion of federal funds to the disadvantaged, although substantial services are still provided to middle-income groups. The MDTA was replaced in 1973 by CETA, which provides employment, education, and training that are targeted almost exclusively on the economically disadvantaged.

Federal efforts have also been increasingly directed toward youths, as youths have made up an increasing proportion of the unemployed. The bulk of vocational education is provided to youths, through secondary schools. Nearly half of CETA participants in its first years were youths, and the Youth Employment and Demonstration Projects Act of 1977 further increased services to youths by introducing several new programs expressly for them, while imposing a maintenance-of-effort requirement on existing CETA programs serving both youths and adults. The TJTC--introduced in 1978--provides tax credits to employers hiring members of certain economically disadvantaged groups, including youths.[2]

As the Congress considers reauthorization of CETA, the VEA, and the TJTC, it must appraise the ongoing characteristics of youth employment problems, and decide what policies will be most appropriate to deal with them.

PLAN OF THE PAPER

This paper is intended to aid the Congress in its efforts to create a set of policies that might improve labor market prospects

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2. An exception to the stronger federal focus on youths is the Employment Service. Until the mid-1960s, Employment Service agencies were heavily involved in school programs that provided employment, counseling, testing, and placement services for graduating seniors. As a part of the War on Poverty, however, the resources of the Employment Service were shifted to serving disadvantaged adults and out-of-school youths.

for youths.[3] Chapter II examines the dimensions of youth employment in more detail and presents projections for the 1980s. Alternative policy approaches are described in Chapter III. Chapters IV through VI examine current programs that attempt to implement these approaches, as well as a number of specific options that might be adopted in the future.

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3. This is the fourth report on youth employment prepared by the Congressional Budget Office since 1977. See Budget Options for the Youth Employment Problem (March 1977); Youth Unemployment: The Outlook and Some Policy Strategies (April 1978); and Youth Employment and Education: Possible Federal Approaches (July 1980).

CHAPTER II. YOUTH EMPLOYMENT PATTERNS

Despite high average unemployment rates relative to adults, most youths do not experience serious difficulty finding a job. In fact, the average time before finding a new job is shorter for unemployed youths than for adults--2.5 to 3 months for youths compared to 3.5 to 4 months for adults.[1] For the most part, unemployment rates are higher for youths than for adults because a larger proportion of youths experience unemployment over the year, for two reasons. First, youths are more likely to be entering or reentering the labor force, and this often involves an initial period of unemployment. Second, youths already working are more likely than adults to leave their jobs--voluntarily or not--due in part to low seniority.[2] Consequently, youths are twice as likely as adults to experience a period of unemployment in any given period, although most will ultimately settle into stable employment as they mature.[3]

A small proportion of young people, however, experience recurring or long-duration unemployment. These youths are disproportionately black and disadvantaged, both economically and educationally.[4] The youth employment problem is largely the problem of this group, who represent roughly 10 percent of the youth labor force.

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1. Kim B. Clark and Lawrence H. Summers, "Labor Market Dynamics and Unemployment: A Reconsideration," in Brookings Papers on Economic Activity (1979), vol. I, p. 19. These figures exclude the effects of labor force withdrawal.

2. Ibid., p. 53. The average duration of a job for youths is less than 3 months. For adult males, the average duration is 30 months.

3. Richard B. Freeman, "Why Is There a Youth Labor Market Problem?" in Bernard E. Anderson and Isabel V. Sawhill, ed., Youth Employment and Public Policy (Prentice-Hall, 1980), pp. 17-19.

4. Richard B. Freeman and David A. Wise, NBER Summary Report: Youth Unemployment (National Bureau of Economic Research, 1980), p. 3.

This chapter describes recent employment patterns for various youth groups,[5] and presents projections for the 1980s indicating that employment problems for minority and disadvantaged youths are likely to continue. The analysis uses a number of employment measures in addition to unemployment rates, because an exclusive focus on unemployment rates can be misleading, especially for youths.

CURRENT EMPLOYMENT PATTERNS AND RECENT TRENDS

The labor market experience of youths has worsened in comparison with that of adults over the last 20 years, and most of the worsening, especially since the 1960s, has taken place among nonwhite youths. Unemployment rates have risen sharply among young nonwhite men. Unemployment rates for young nonwhite women have also risen. Among white youths, on the other hand, the increase in unemployment rates has been comparatively slight. The differences are presented in Table 2, which shows that while unemployment rates for young white men rose by less than 20 percent between 1957 and 1978--years of cyclical peak in economic activity in which the unemployment rate for adult white males was constant --unemployment rates for young nonwhites rose by 60 percent or more. By 1978, unemployment rates for nonwhite youths were at least two and one-half times the rates for white youths of the same age and sex.[6]

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5. The racial/ethnic breakdown used is white and nonwhite. It would be useful to present figures for Hispanic youths as well, but those data are incomplete. The nonwhite category is about 90 percent black. Hispanics are distributed among the two categories, with about 95 percent classified as white and 5 percent classified as nonwhite.

6. The unemployment rate for Hispanic youths tends to be only slightly higher than that for all youths, and much lower than the rate for black youths. There are, however, substantial differences in unemployment within the group of Hispanic youths. The rate for Puerto Rican youths is similar to that for black youths; the rate for Mexican-American youths is similar to the average for all youths; and the rate for all other Spanish-origin youths is lower than the average for all youths. See Congressional Budget Office, Youth Unemployment: The Outlook and Some Policy Strategies (April 1978), pp. 22-23.

TABLE 2. YOUTH UNEMPLOYMENT RATES IN THE CIVILIAN POPULATION BY AGE, RACE, AND SEX: SELECTED YEARS[a] (In percents)

	1957	1964	1978
All Youth			
16-24 years old	9.0	11.5	12.2
All Youth			
16-19 years old	11.6	16.2	16.3
20-24 years old	7.1	8.3	9.5
White Males			
16-19 years old	11.5	14.7	13.5
20-24 years old	7.1	7.4	7.6
Nonwhite Males			
16-19 years old	18.4	24.3	34.4
20-24 years old	12.7	12.6	20.0
White Females			
16-19 years old	9.5	14.9	14.4
20-24 years old	5.1	7.1	8.3
Nonwhite Females			
16-19 years old	20.2	31.6	38.4
20-24 years old	12.2	18.3	21.3

SOURCES: U.S. Department of Labor, Factbook on Youth (Youth Knowledge Development Report 2.5, May 1980), pp. 44, 46; and Employment and Training Report of the President, 1979, p. 244.

a. These years were selected because, in each, the unemployment rate for white males aged 35 to 44 was constant, at 2.5 percent.

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Employment and Labor Force Participation

The disparity between white and nonwhite youths is even more pronounced when the proportion employed is compared. Indeed, on this basis, the labor market prospects for white youths overall have improved, with a larger proportion of them finding employment in 1978 than previously, especially among young women (see Table 3). Unemployment rates for white youths have risen because a larger proportion of them are in the labor force than formerly (see Table 4). The experience of nonwhite youths overall is the opposite, with a smaller proportion of them finding employment in 1978 than previously (see Table 3). The deterioration in employment is especially severe among nonwhite men, with the proportion employed falling from 48 percent in 1957 to less than 30 percent in 1978 for teenagers, and from 78 percent to 61 percent for young adults. This decline in employment rates would have resulted in even larger unemployment rates than observed in 1978 had there not been a substantial drop in labor force participation among young nonwhite men. Although the drop in labor force participation is partly due to increasing school enrollment among nonwhites, it may also mean that many are discouraged about the prospects of finding employment--a kind of hidden unemployment.[7]

Inactivity Rates

Civilian employment is not the only productive activity in which youths engage. Military service, school enrollment, and homemaking claim some of them. In recent years, school enrollment rates for nonwhites have increased, converging toward those for whites. Military enrollment has declined since the end of the Vietnam war, but much more so for whites than for nonwhites.[8] It is possible to adjust for the combined effects of trends in school enrollment and military service by using inactivity rates--the percentage of youths who are neither employed, serving in the military, nor enrolled in school.

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7. Robert D. Mare and Christopher Winship, "Changes in Race Differentials in Youth Unemployment and Labor Force Participation, 1960-1978: Preliminary Analysis," in Expanding Employment Opportunities for Disadvantaged Youth: Sponsored Research (Fifth Annual Report, National Commission for Employment Policy, December 1979), p. 72.

8. Ibid., pp. 40-44.

TABLE 3. CIVILIAN EMPLOYMENT-TO-POPULATION RATIOS, BY AGE, RACE, AND SEX: SELECTED YEARS[a] (In percents)

	1957	1964	1978
All Youth			
16-24 years old	52.0	49.0	59.9
All Youth			
16-19 years old	43.9	37.3	48.5
20-24 years old	59.5	60.9	69.6
White Males			
16-19 years old	52.4	45.0	56.3
20-24 years old	80.5	79.3	76.0
Nonwhite Males			
16-19 years old	48.0	37.8	29.8
20-24 years old	78.2	78.1	61.1
White Females			
16-19 years old	38.3	32.2	48.7
20-24 years old	43.4	45.3	60.6
Nonwhite Females			
16-19 years old	26.5	21.8	23.5
20-24 years old	40.9	43.7	45.4

SOURCES: U.S. Department of Labor, Factbook on Youth (Youth Knowledge Development Report 2.5, May 1980), pp. 40, 42; and Employment and Training Report of the President, 1979, pp. 240-44.

a. See footnote a, Table 2.

TABLE 4. CIVILIAN LABOR FORCE PARTICIPATION RATES, BY AGE, RACE, AND SEX: SELECTED YEARS[a] (In percents)

	1957	1964	1978
All Youth			
16-24 years old	57.2	55.3	68.2
All Youth			
16-19 years old	49.6	44.4	58.8
20-24 years old	64.0	66.3	76.9
White Males			
16-19 years old	59.2	52.7	65.0
20-24 years old	86.7	85.7	87.2
Nonwhite Males			
16-19 years old	58.8	50.0	45.4
20-24 years old	89.6	89.4	78.0
White Females			
16-19 years old	42.1	37.8	56.8
20-24 years old	45.8	48.8	69.3
Nonwhite Females			
16-19 years old	33.2	31.7	38.2
20-24 years old	46.6	53.6	62.8

SOURCE: Employment and Training Report of the President, 1979, pp. 240-44.

a. See footnote a, Table 2.

Even after adjusting for trends in school enrollment and military service, a substantial and worsening differential between white and nonwhite young men remains for all but those aged 16 to 17 (see Table 5). Rising school enrollment among nonwhites has resulted in lower inactivity rates for nonwhite men aged 16 to 19, but inactivity rates for nonwhite men aged 20 to 24 have increased in recent years. For most white youths, the reduction in

TABLE 5. COMPARISON OF INACTIVITY RATES: SELECTED YEARS[a] (In percents)

	1964	1978
White Males		
16-17 years old	3.3	3.6
18-19 years old	8.0	4.7
20-24 years old	6.1	5.9
Nonwhite Males		
16-17 years old	8.4	3.7
18-19 years old	14.6	13.2
20-24 years old	10.5	15.9
White Females		
16-17 years old	9.6	4.6
18-19 years old	31.9	13.2
20-24 years old	46.8	24.1
Nonwhite Females		
16-17 years old	11.5	6.4
18-19 years old	36.2	28.0
20-24 years old	45.7	33.5

SOURCE: Mare and Winship, "Changes in Race Differentials," pp. 41, 45.

NOTE: The inactivity rate is the percentage of the population that is neither employed, serving in the military, nor enrolled in school. Military service is ignored for females.

a. See footnote a, Table 2.

inactivity rates has been even larger due to higher employment. In 1978, nearly 16 percent of nonwhite men aged 20 to 24 were inactive, compared to only 6 percent for white men of the same age. Nonwhites in this group were nearly three times as likely as whites to be inactive in 1978--up from almost twice as likely in 1964.

Concentration of Unemployment

Youth unemployment is highly concentrated. Although many youths experience short periods of unemployment in any given year, the distribution of total weeks of youth unemployment is concentrated on a small proportion of youths who are unemployed for long periods. In 1978, nearly 40 percent of youths aged 16 to 21 experienced at least one period of unemployment during the year. Of these, only 23 percent were unemployed for 15 weeks or more. This group of youths with long-term unemployment accounted for 61 percent of total weeks of youth unemployment, although they comprised only 9 percent of the youth population and 10 percent of the youth labor force.[9]

The youths at greatest risk of long-term employment problems are high school dropouts from low-income families. In 1978, about 4 percent of youths aged 16 to 21--about 800,000 youths--met this description. Compared to the total population of youths aged 16 to 21, youths who experienced long-term unemployment in 1978 were 2.1 times as likely to be black and 1.3 times as likely to be Hispanic. They were 1.8 times as likely to be high school dropouts, 1.6 times as likely to come from poor families, and 1.4 times as likely to live in the inner city of a large metropolitan area.[10]

CAUSES OF YOUTH EMPLOYMENT TRENDS

A number of factors have contributed to current patterns and recent trends in youth employment. Some of these factors affect the supply of labor, such as:

- Labor force competition;
- Differences in youth literacy; and
- School enrollment patterns.

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9. CBO tabulations from the National Longitudinal Survey of Youth, 1979. Long-term unemployment or inactivity has detrimental effects on future employability, as is discussed in Chapter III.

10. CBO tabulations from the National Longitudinal Survey of Youth, 1979.

Other factors affect the demand for labor by employers, including:

- Minimum wage coverage;
- Changes in wage differentials between youths and adults;
- Racial and ethnic discrimination; and
- Shifts in the occupational and geographic structure of demand.

One factor affects the efficiency with which jobs and applicants are matched in the labor market:

- Placement activities.

Factors Affecting Labor Supply

During the 1960s, youths from the postwar baby boom began to enter the labor market, resulting in increased competition for entry-level jobs. The competition has been particularly intense for nonwhite youths because their population growth rate has been about 50 percent higher than the already rapid growth rate for white youths.[11] At the same time, there has been increasing competition from immigrants[12]--often illegal--as well as from the increased labor force participation of adult women.[13]

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11. Morris J. Newmann, "The Labor Market Experience of Black Youth, 1954-78," Monthly Labor Review, vol. 102 (October 1979), Table 2, p. 26.

12. Research on illegal immigrants to the United States in recent years indicates that they are typically young, male, unskilled, and poorly educated--a group likely to compete primarily with disadvantaged young men in border areas and central cities with preexisting concentrations of legal immigrants. See Michael L. Wachter, "The Labor Market and Illegal Immigration: The Outlook for the 1980s," Industrial and Labor Relations Review, vol. 33 (April 1980), p. 353.

13. Research indicates that adult women are good substitutes for youths in the labor market but, because of continued sex-typing of jobs, they have probably competed primarily with young women. See J.H. Grant and D.S. Hamermesh, "Labor Market Competition Among Youths, White Women, and Others," Review of Economics and Statistics, vol. 63 (August 1981), pp. 354-360.

Differences in literacy help to account for the greater employment problems of nonwhite youths. A 1975 nationwide study among in-school 17-year-olds showed that only 58 percent of black youths could meet the standard of functional literacy, as against 92 percent of white youths.[14] Dropouts would be even more likely to be illiterate. Although nonwhite enrollment rates are increasing relative to those of whites, in 1978 nonwhites were still less likely to graduate from high school than whites.[15] The problem of literacy may have become more pronounced in the 1960s, especially in low-income areas, because of the tendency of some school systems to practice "social promotion"--promoting students from one grade to the next regardless of their performance. This practice is currently being revised in some school districts, which have introduced "minimum competency" requirements for graduation from high school.

Trends in school enrollment are another factor in the rising unemployment rates for nonwhite youths relative to white youths. School enrollment rates for nonwhites have been increasing relative to those for whites. Since schools tend to retain those who would be relatively more employable if they were not in school, rising school enrollment rates for nonwhites could reduce the average employability of those out of school and increase unemployment rates. Closing the schooling gap between nonwhite and white youths may nevertheless be useful in equalizing their employability as adults.

Factors Affecting Employment Demand

Increases in minimum wage coverage may have restrained growth in employment demand for youths during the 1960s, at the very time that the children of the baby boom were entering the labor force. Although the employment effects of the minimum wage are often a subject of controversy, the consensus among recent studies is that increases in the minimum wage reduce the number of jobs available

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14. Charles J. Gadway and H.A. Wilson, "Functional Literacy: A Brief Summary and Highlights of An Assessment of 17-Year-Old Students in 1974 and 1975" (National Assessment of Educational Progress, 1976), p. 15.

15. Factbook on Youth, pp. 32-33.

to younger workers.[16] Further, the adverse effects of the minimum wage appear to be more severe for nonwhite youths than for whites.

A narrowing of the pay differential previously existing between white and nonwhite youths of comparable age and education may also have helped to reduce employment opportunities for nonwhite youths. The average wage for white youths has risen less than the average wage for adults in recent years, thereby generating enough new employment demand for white youths to increase their employment-to-population ratio. Wages for nonwhite youths, however, have increased at about the same rate as the average wage for adults, rising relative to the wage for white youths.[17]

A number of shifts in the occupational and geographic structure of employment demand have occurred in recent years that have also probably had an adverse effect on youth employment. The types of less-skilled jobs for which youths--with little experience and few marketable skills--would normally be hired represent a shrinking proportion of private-sector employment in the United States.[18] In addition, there has been a substantial decline in recent years in the size of the military--a major employer of inexperienced youths; the proportion of youths serving in the armed forces has been declining since the late 1960s--from 25 percent to about 10 percent now.[19] Employment shifts that may have

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16. See Chapter 2, "The Employment and Unemployment Effects of the Minimum Wage," in Report of the Minimum Wage Study Commission, vol. I (May 1980).

17. Richard B. Freeman, "Why Is There a Youth Labor Market Problem?" in Anderson and Sawhill, ed., Youth Employment and Public Policy, p. 9.

18. Robert D. Mare and Christopher Winship, "Changes in Race Differentials in Youth Labor Force Status: A Review of the Literature," in Expanding Employment Opportunities for Disadvantaged Youth: Sponsored Research (Fifth Annual Report, National Commission for Employment Policy, December 1979), pp. 21-23.

19. Richard Cooper, "Youth Labor Markets and the Military," in Youth Unemployment: Its Measurement and Meaning (Department of Labor, Youth Knowledge Development Report 2.1, May 1980), p. 199.

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contributed to the especially severe deterioration in opportunities for nonwhites include the decline in demand for farm labor, which provided relatively more jobs to nonwhites than to whites, as well as the shift of employment out of central cities to the suburbs.[20] Because blacks have become an increasing proportion of all military enlistments since the elimination of the draft, however, the adverse employment effects of the relative reduction in military demand for youths have been more moderate for black than for white youths.

Matching Mechanisms

The unemployment that normally accompanies the transition from school to work may have increased during the 1960s in part because state Employment Service agencies reduced their emphasis on placement activities for high school seniors. Youths are frequently new entrants to the labor force in the process of making the transition from school to work. In the United States (but not in all countries), this transition often involves an initial period of trial and error, in which frequent job changes and intermittent periods of unemployment as well as continued schooling are common. In the 1960s, as a part of the war on poverty, Employment Service resources were shifted toward services for disadvantaged adults and out-of-school youths, with a subsequent reduction of formalized services in schools.[21] The loss of placement services in high schools would bear most heavily on students from low-income families, who have less access to good labor market information through family and friends.

PROSPECTS FOR THE FUTURE

The aging of the baby boom population will result in a decline in the size of the youth population and labor force during the 1980s. From 1970 to 1980, the total labor force grew by 24

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20. Robert Lerman, "An Analysis of Youth Employment Problems," in A Review of Youth Employment Problems, Programs, and Policies, vol. I (The Vice President's Task Force on Youth Employment, January 1980), p. 25.

21. Youth Employment Act of 1979, Hearings before the Subcommittee on Employment Opportunities of the House Committee on Education and Labor, 96:1 (1979), Part I, p. 380.

percent, while the labor force aged 16 to 24 increased by 29 percent. By contrast, from 1980 to 1990, the total labor force is projected to grow by 12 to 22 percent, while the labor force aged 16 to 24 is expected to decline in size by 2 to 10 percent. As a result, youths 16 to 24 will drop from 24 percent to about 19 percent of the total labor force by 1990 (see Table 6).

A core of economically and educationally disadvantaged youths will remain, and they are likely to face chronic employment problems. Most of the projected decline in the size of the youth labor force is confined to white males--the group with the fewest labor market problems. Whereas labor force projections for 1990 indicate a 14 to 15 percent decline for white males aged 16 to 24, those for nonwhite youths range from a 3 percent decline to a 24 percent increase. Reductions in the total number of young white females will be offset by expected increases in female labor force participation, resulting in little, if any, change in their labor force size (see Table 6).

TABLE 6. TOTAL CIVILIAN AND MILITARY LABOR FORCE: 1970, 1980, AND 1990 (In millions)

	1970 (actual)	1980 (actual)	1990[a] (projected)
Total 16 and over	85.9	106.8	119.5 - 130.3
Total 16-24	19.9	25.7	23.1 - 25.1
White males	10.4	12.4	10.5 - 10.7
White females	7.2	10.1	9.4 - 10.2
Nonwhite males	1.4	1.8	1.6 - 2.1
Nonwhite females	1.0	1.4	1.6 - 2.0

SOURCES: Figures for 1970 from Employment and Training Report of the President, 1980; 1980 from Bureau of Labor Statistics, Employment and Earnings (January 1981); 1990 from unpublished BLS projections.

a. BLS projections provide low, intermediate, and high growth projections, which differ primarily because of different assumptions about trends in labor force participation.

Although the major decline in the youth labor force is expected to be for white males, young women and minorities could benefit from the reduced labor market competition. Since adult women appear to be good substitutes for youths in employment, however, competition from adult women may dampen the improvement in labor market prospects that would be expected for youths on the basis of youth labor force changes alone. The persistence of occupational segregation by sex suggests that this competition will be most pronounced for young women.

Improved labor market prospects for young men, especially minorities, are also threatened, principally by the possibility of a continued influx of undocumented workers. It is estimated that the population of illegal aliens in the country is from 3 to 6 million, and that this population continues to grow by one-quarter to one-half million each year.[22] Without significant changes in U.S. immigration policy, competition from undocumented workers could be substantial, at least in certain border regions and larger cities.

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22. Testimony of William French Smith before the Senate Subcommittee on Immigration and Refugee Policy and the House Subcommittee on Immigration, Refugees, and International Law, 97:1 (July 30, 1981).

CHAPTER III. ALTERNATIVE POLICY APPROACHES AND AN OVERVIEW OF PRESENT FEDERAL EFFORTS

Youth labor market policy has two sometimes conflicting goals: to increase the current employment of youths and to enhance their long-term employability. While higher employment rates for youths may be of immediate value in terms of greater income and reduced criminal activity, the long-term basis for public concern about youth unemployment is that today's jobless youths may become tomorrow's hard-to-employ adults. The immediate consequences of unemployment are generally more serious for adults than for youths, because the earnings of adults are more likely to be a major source of family income. If there were not a link between joblessness as a youth and joblessness later as an adult, youth unemployment would probably receive less public attention than it does currently.

There are three approaches to dealing with the youth employment problem:

- Increasing the number of jobs offered to youths, without necessarily changing the youths' qualifications;
- Increasing the qualifications of youths, thereby improving their ability to compete for existing jobs; or
- Improving the ability of youths to negotiate the transition from school to work or from one job to another, without necessarily altering either the structure of employment demand or the job qualifications of youths.

These three approaches are necessarily interdependent. A strategy of increasing employment demand will fail if those in need of help are not ready for jobs. Improvement in the qualifications of youths will be ineffective if too few jobs are available. Improving matching mechanisms will be futile if there are no jobs or employable youths to be matched.

INCREASING EMPLOYMENT DEMAND FOR YOUTHS

Employment demand for youths can be increased by expanding total job opportunities in the economy, by redistributing existing employment demand to target it more heavily on youths, or by a hybrid approach in which expanded job opportunities are targeted on youths.

General economic expansion will not only reduce overall unemployment rates, but will also reduce the differentials in unemployment rates between adults, white youths, and minority youths. Stimulative policies in a time of economic slack will translate after some time into increased employment. Since there is evidence to indicate that youth unemployment is more sensitive to economic fluctuations than that of adults, and that nonwhite youth unemployment is more sensitive than that of white youths, economic expansion will tend to reduce the unemployment of youths, especially minority youths, proportionately more than that of adults.[1] One set of estimates, for example, indicates that a decrease of 1 percentage point in the unemployment rate for adult males is associated with an approximately 1.5 point decrease in the unemployment rate for white youths and a 2.5 point decrease in that for black youths.[2]

Reducing unemployment by stimulative macroeconomic policies can, however, fuel further inflation. Further, the data in Chapter II show that sole reliance on general economic stimulation will not eliminate differentials in adult, youth, and minority unemployment rates. Even at cylical peaks, wide gaps remain between the unemployment rates of adults and youths and of white and nonwhite youths.[3]

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1. National Commission for Employment Policy, Expanding Employment Opportunities for Disadvantaged Youth (Fifth Annual Report, December 1979), pp. 86-87.

2. James Luckett and Robert Flanagan, "Youth Employment Policy Review Issues," Council of Economic Advisers, Working Paper, April 1979. Similar estimates were obtained by the Congressional Budget Office in Youth Unemployment: The Outlook and Some Policy Strategies (April 1978), p. 5.

3. Some differential in unemployment rates between youths and adults should be expected even if there were no youth employment "problem," because of the more tenuous labor force attachment of youths.

In the U.S. economy, targeted employment policies may be a less inflationary way to reduce both overall unemployment and the unemployment differentials among groups.[4] Employment policies that attempt to target greater employment demand on selected groups in the labor force may either increase total job opportunities in the economy or just redistribute existing employment demand. Although the former would be preferable, it does not always occur.

The extent to which an increase in demand for targeted groups increases overall employment in the economy depends on the prevalence of displacement, in which target group members are hired in place of, rather than in addition to, the employees who would otherwise be hired.

Even when displacement is large, so that job opportunities are redistributed toward disadvantaged youths without a significant increase in the aggregate, the net result may be beneficial. The findings discussed in Chapter II indicate that total weeks (although not the incidence) of youth unemployment are highly concentrated on a small group of youths disadvantaged because of race, education, and income. If unemployment were more evenly distributed among all youths, it is likely that the consequences of unemployment--both immediate and long-term--would be less serious. Earnings losses would be less concentrated, and hence less likely to create economic hardship. Research indicates that extended periods without work have serious long-term effects on the future employability of youths, so that costs in terms of the employability development of youths would also be lower. For both young men and women, early joblessness is associated with a lower probability of employment in the short run and with lower wages throughout their working lives.[5]

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4. See Robert M. Solow, "Employment Policy in Inflationary Times," in Eli Ginzberg, ed., Employing the Unemployed (Basic Books, 1980), pp. 129-41.

5. See David Ellwood, "Teenage Unemployment: Permanent Scars or Temporary Blemishes," and Mary Corcoran, "The Employment and Wage Consequences of Teenage Women's Nonemployment," in The Youth Employment Problem--Dimensions, Causes, and Consequences (Department of Labor, Youth Knowledge Development Report 2.9, May 1980), pp. 584-693. These studies were designed to control for individual differences that might

(Continued)

But greater employment demand cannot by itself be of much help to youths with severe deficiencies in basic literacy and in work habits. For this group, efforts to develop basic skills are required.

INCREASING EMPLOYABILITY

Some youths, especially those from disadvantaged or minority backgrounds, are not ready for the labor market and cannot compete successfully with adults or other youths for available jobs. They are not readily employable under current conditions. It should be recognized, however, that some of them could become employable--with no change in their characteristics--if their wage cost fell sufficiently or if labor markets became extremely tight. Hence, the employability approach discussed in this section cannot be divorced from the demand-generating approach discussed in the previous section.

In surveys conducted for the Task Force on Youth Employment in 1979, employers reported that their reluctance to hire disadvantaged youths was primarily due to the youths' lack of basic literacy, along with their poor work habits and attitudes. Lack of specific occupational skills was less important to most employers, because they felt occupational skills could be taught on the job if the youths were functionally literate and motivated.[6]

This indicates that federal efforts in this area should emphasize basic education and work habits rather than occupational skill training. A consensus appears to be emerging that disadvantaged youths need training in basic academic skills coupled with

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5. (Continued)
contribute both to current and future employment difficulties, in order to isolate the causal effect of early joblessness on later labor market failure. Similar results were obtained in an earlier study by Wayne Stevenson, "The Relationship Between Early Work Experience and Future Employability," in Arvil Adams and Garth Mangum, The Lingering Crisis of Youth Unemployment (Upjohn Institute for Employment Research, June 1978), pp. 93-115.

6. Private Sector/Education Roundtable Series: Final Report (The Vice President's Task Force on Youth Employment, October 1979), p. 7.

work experience, together with a strict system of performance-based rewards and penalties in which those who are not ready to benefit from remedial training are weeded out.[7] Work experience alone, even when well-supervised, does not appear to increase the employability of youths.[8] In fact, poorly supervised work experience may even tend the other way if it encourages the development or continuation of poor work habits and attitudes.[9]

IMPROVING LABOR MARKET TRANSITIONS

A large portion of youth joblessness arises from their frequent shifts between school and work and from job to job, before they settle into stable employment. Studies indicate that many youths are poorly informed about effective ways to search for jobs. The transition from school to work, or from one job to another, takes them longer than necessary, thereby increasing their average rate of unemployment. This problem is likely to be more serious for low-income and minority youths than for others, because they are less likely to have job contacts through family and friends.[10]

If labor market demand is strong, training in job-search techniques can be a low-cost way of reducing unemployment among job-ready youths, by lessening the time it takes them to find work. Placement activities can do little, though, for young people who are not job-ready or when employment demand is weak.

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7. See Garth Mangum and John Walsh, Employment and Training Programs for Youth--What Works Best for Whom? (Department of Labor, Youth Knowledge Development Report 2.2, May 1980), p. 173; and Robert Taggart, A Fisherman's Guide: An Assessment of Training and Remediation Strategies (Upjohn Institute for Employment Research, 1981), Chapter 5.

8. Summary and Findings of the National Supported Work Demonstration (Manpower Demonstration Research Corporation, 1980), p. 9.

9. Taggart, A Fisherman's Guide, p. 127.

10. National Commission for Employment Policy, Expanding Employment Opportunities, p. 103.

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OVERVIEW OF PRESENT FEDERAL EFFORTS

A variety of federal programs are being or might be used to improve employment prospects for youths. Those examined in the following chapters are grouped according to their principal goal, although some programs may relate to more than one goal. Programs that are primarily intended to generate increased targeted employment demand--employment subsidies such as the Targeted Jobs Tax Credit, economic development programs, and a youth subminimum wage--are discussed in Chapter IV. Federal appropriations and estimated revenue losses for these activities in 1982 total $1.3 billion. Programs that are intended to develop greater employability--education, employment, and training programs--are examined in Chapter V. A total of $3.6 billion has been appropriated for these federal programs in 1982. Programs that are intended to improve labor market transitions through job search training and job placement services are analyzed in Chapter VI. Budget appropriations for the U.S. Employment Service are about $0.7 billion for 1982 (see Table 7).[11]

The effectiveness of these programs is considered in terms of several criteria, including their capacity to generate new job opportunities for youths; their effect on the future employability of targeted youths; the extent to which benefits are directed to the most disadvantaged youths; and the probability that jobs may be gained at the expense of other groups in the labor force. Although there may be isolated successes in all programs, overall effectiveness requires a large enough proportion of successes to show up in national studies of program results.

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11. This includes the supplemental appropriation of $211 million requested by the Administration in late January 1982.

TABLE 7. SUMMARY OF PRESENT FEDERAL PROGRAMS THAT AFFECT THE YOUTH LABOR MARKET (In millions of dollars)

Program	Authorized 1982 Funding	1982 Appropriations or Estimated Revenue Losses	Program Description
Increasing Employment Demand			
Targeted Jobs Tax Credit	---	243[a]	Provides a nonrefundable tax credit to employers hiring persons in specific groups, including disadvantaged youths.
Economic Development Programs	1,157[b]	1,009[c]	Provide place-oriented incentives for private-sector investment in areas of high unemployment or low income.
Minimum Wage Provisions	---	---	The Fair Labor Standards Act currently provides for a minimum wage of $3.35 per hour. A submini-mum wage is available to certain employers of students through Labor Department certification.
Increasing Employability			
Comprehensive Employment and Training Act	3,895[d]	2,978[d]	Provides training and work experience programs targeted on the economically disadvantaged.

(Continued)

TABLE 7. (Continued)

Program	Authorized 1982 Funding	1982 Appropriations or Estimated Revenue Losses	Program Description
Vocational Education Act	735[e]	646[e]	Provides federal dollars to supplement vocational expenditures at the state and local level. Vocational education programs provide job-skill training in secondary and postsecondary schools.
Improving Labor Market Transitions			
U.S. Employment Service	---[f]	735[g]	Distributes funds to state employment service agencies to provide job-seekers with labor market information and placement assistance.

SOURCES: Funding authorization information is taken from the Omnibus Budget Reconciliation Act of 1981 and from the Economic Recovery Tax Act of 1981. Amounts appropriated are taken from the 1982 appropriations bills, or H.J. Resolution 370 (P.L. 97-92) as interpreted by agency budget officers.

TABLE 7. (Continued)

a. An additional $30 million in administrative expenses is authorized under the Omnibus Budget Reconciliation Act of 1981, although only $20 million was appropriated under H.J. Resolution 370 (P.L. 97-92).

b. Includes $500 million for Urban Development Action Grants, $290 million for the Economic Development Administration, and $367 million for Community Development Block Grants (CDBGs). Total funding for CDBGs is $3,666 million, but only about 10 percent of this is for economic development activities. This does not include amounts authorized for the Farmers Home Administration Business and Industrial Loan Program.

c. Includes $440 million for Urban Development Action Grants, $223 million for the Economic Development Administration, and $346 million for Community Development Block Grants.

d. This includes funding for program activities only. Expenses for the Employment and Training Administration are not included.

e. Additional federal funding for vocational education programs at the postsecondary level occurs through grants to individuals, such as Pell grants.

f. Only a portion of the Employment Service budget was addressed in the Omnibus Reconciliation Act.

g. Includes funding for grants to states to carry out the provisions of the Wagner-Peyser Act, as well as activities mandated under other legislation, such as the Trade Adjustment Assistance Act. Some additional resources are available for services rendered to CETA prime sponsors, local welfare agencies, and others.

CHAPTER IV. INCREASING EMPLOYMENT DEMAND FOR YOUTHS

Most jobs are in the private sector, so that efforts to achieve a substantial increase in employment demand for youths must induce greater willingness among private-sector employers to hire these youths. This chapter discusses three ways to increase employment demand for youths--other than general economic expansion--that particularly involve the private sector:

- o Employment subsidies;
- o Economic development subsidies; and
- o Modification of minimum wage provisions.

Both current programs and options for altering present efforts are discussed. Although public service employment could be used to target greater employment demand on selected groups, it is not discussed here. The Congress has just eliminated the previous public service employment (PSE) programs that were funded under Titles II-D and VI of the Comprehensive Employment and Training Act. The effect of other CETA programs on employment demand for disadvantaged youths will be discussed in Chapter V.

All of the programs discussed in this chapter are intended to redirect existing employment demand or to direct new employment demand toward youths. Since the labor force participation of youths is very responsive to employment demand, however, policies that are successful in generating more employment demand for them may induce more to enter the labor market and thus have little effect on youth unemployment rates. Also, because the magnitude of the youth employment problem is sensitive to overall economic conditions, in time of recession policies designed to stimulate the economy may be a necessary complement to the programs discussed here. Finally, more effective enforcement of existing federal laws concerning racial discrimination and immigration would also probably help to target more employment demand on minority and low-skilled youths.[1]

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1. For a discussion of the impact of immigration on the United States, see Leon F. Bouvier, Immigration and Its Impact on U.S. Society (Population Reference Bureau, September 1981).

The programs discussed in this chapter may affect youth employability as well as employment demand, in several ways. First, if successful at generating more employment demand, these programs would increase the experience accumulated by youths in any one year, thereby helping to develop the work habits and previous employment record desired by prospective employers. Second, the amount of on-the-job training incorporated into the jobs given to youths might be increased by providing employment subsidies or lowering the minimum wage, thus reducing the wage cost to employers below the youths' productivity by enough to "pay" for that training.[2] On the other hand, evidence indicates that increased youth employment opportunities reduce school enrollment,[3] and this may have adverse consequences for future employability, especially if youths drop out of school before completing high school.

EMPLOYMENT SUBSIDIES

Targeted employment subsidies are intended to increase employment demand for selected groups by reducing the costs to employers of hiring them. Subsidies tend to induce some increase in overall employment demand as well because of reduced labor costs, but the increase in total employment is unlikely to be as large as the number of subsidized employees, for two reasons. First, with a subsidy some employers receive windfalls for hiring employees that they would have hired even in the absence of the subsidy; in this instance neither total nor target-group employment is increased. Second, displacement occurs to the

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2. See Masinori Hashimoto, Minimum Wages and On-the-Job Training (American Enterprise Institute, 1981); and Linda Leighton and Jacob Mincer, "The Effects of Minimum Wages on Human Capital Formation," pp. 155-73 in Simon Rottenberg, ed., The Economics of Legal Minimum Wages (American Enterprise Institute, 1981). Contradictory results are obtained by Edward P. Lazear and Frederick H. Miller, "Minimum Wage Versus Minimum Compensation," in the Report of the Minimum Wage Study Commission, vol. V (1981), pp. 347-80.

3. See J. Peter Mattila, "The Impact of Minimum Wages on Teenage Subsidy and on the Part-Time/Full-Time Employment of Youths," pp. 61-87 in Rottenberg, ed., The Economics of Legal Minimum Wages.

extent that employers fire workers ineligible for the subsidy and replace them with eligible ones, or when employers fill a larger proportion of vacancies with eligible workers than they otherwise would; in this instance, employment demand for the target group increases at the expense of ineligible workers.

Employment subsidies could, in principle, take the form of either direct federal expenditures or tax subsidies. Existing federal employment subsidies--provided via the Targeted Jobs Tax Credit (TJTC)--are nonrefundable tax credits based on annual wages paid to targeted employees up to specified maximum allowable amounts.[4]

The Targeted Jobs Tax Credit

The Targeted Jobs Tax Credit--enacted in 1978 and implemented in 1979--currently is the only federal employment subsidy program. It provides a 50 percent reduction in after-tax costs of the first $6,000 of wages paid to target group employees in the first year of employment, regardless of the employer's tax bracket, so long as the employer has sufficient taxable income to use the credit. In the second year of employment, the credit provides a 25 percent reduction in after-tax costs of the first $6,000 of qualified wages.[5] Credits may be carried back three years and forward seven years.

The groups eligible for the TJTC have changed over time. Initially seven groups were targeted: vocational rehabilitation

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4. A nonrefundable tax credit is one that can be used to reduce tax liability, but which is of no value to employers without tax liability. A refundable tax credit would provide a payment to employers with insufficient tax liability to use the credit fully.

5. Joint Tax Committee staff pamphlet, "Background on Tax Incentives for Employment." In the first year, for example, an employer receives a tax credit equal to $3,000 for an eligible employee earning $6,000. With the credit, however, only $3,000 of the employee's wage may be deducted as a business expense. Hence, at a 35 percent tax rate, the employee's after-tax cost to the employer is $1,950 ($3,000 times [1-tax rate]). An ineligible employee earning the same $6,000, however, costs the employer $3,900 ($6,000 times [1-tax rate]).

referrals; economically disadvantaged youths (aged 18-24); economically disadvantaged Vietnam veterans; recipients of Supplemental Security Income; general assistance recipients; economically disadvantaged ex-convicts; and cooperative education students (aged 16-19). In 1981, however, the targeted groups were changed by adding recipients of Aid to Families with Dependent Children (AFDC), registrants under the Work Incentive (WIN) program, and PSE workers whose jobs had been terminated by recent budget cuts; and by restricting the eligibility of cooperative education students to those who are economically disadvantaged.[6] Until 1981, retroactive certification of existing employees was permitted and about two-thirds of employees (excluding cooperative education students) claimed under the credit were certified retroactively.[7]

It is estimated that the TJTC will cost $243 million in tax revenue losses during fiscal year 1982.[8] In addition to this, $20 million has been appropriated for administrative expenses.

The findings of a number of reports on the TJTC--as it was before the 1981 amendments--indicate that the hiring patterns of most employers were not altered by the availability of the credit. Of all economically disadvantaged youths between 18 and 24 who obtained employment during fiscal year 1980, only 2.3 percent led to employer claims under the TJTC.[9] Among many employers who did use it, the TJTC was apparently a windfall--a reward for hiring decisions they would have made anyway. About half of all employees certified for the credit from the program's inception through 1980 were cooperative education students, a group for which the credit is generally thought unnecessary to obtain place-

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6. Economic Recovery Tax Act of 1981 (P.L. 97-215). A separate tax credit program for WIN program participants continued in effect through December 1981, when WIN participants became eligible for the TJTC.

7. U.S. Employment Service, Office of Program Review, TJTC Program, period ending March 31, 1981. Retroactive certification occurs when the employer hires an employee first, and only later determines his eligibility for the tax credit.

8. Estimated by the Joint Tax Committee. The accuracy of TJTC estimates is, however, highly uncertain.

9. Letter, Martin A. Meyers, Director, Program Analysis Division, General Accounting Office, to Senator John Heinz, June 5, 1981.

ments.[10] Of the remaining employees certified for the credit, about two-thirds were certified retroactively. Results of a study conducted for the Department of Labor indicate that at most 18 percent of hirings (excluding cooperative education) under the TJTC program through fiscal year 1980 represented new job demand, with windfalls occurring in the remaining hirings.[11] The 1981 amendments eliminating retroactive certification and eligibility for cooperative education students who are not economically disadvantaged will probably reduce the potential for windfall gains from the credit, but they may also further reduce use by employers.

It is unlikely that the TJTC as amended will significantly increase employment demand for severely disadvantaged youths. Employers seem reluctant to hire youths lacking basic skills at any price, as evidenced by the CETA experiments involving 100 percent wage subsidies for disadvantaged youths in the Youth Incentive Entitlement Pilot Projects (YIEPP). Even where they would have paid none of the wages themselves, only 18 percent of private employers contacted were willing to hire YIEPP participants. On the other hand, the proportion of employers contacted who were willing to hire disadvantaged youths increased over the course of the recruitment period, which lasted only four months. This suggests that participation by employers might be higher in a permanent program.[12]

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10. See Mary Fitzpatrick, "Putting the Targeted Jobs Tax Credit Back to Work" (Northeast-Midwest Institute, Washington, D.C., September 1980), p. 21; and the Mershon Center, The Implementation of the Targeted Jobs Tax Credit, Report No. 2 (Ohio State University, January 1981), p. vi. These studies, however, have been criticized. Personnel involved in administering cooperative education programs believe that the TJTC has, in fact, significantly improved their ability to place students.

11. The Mershon Center, The Implementation of the Targeted Jobs Tax Credit, Report No. 3 (Ohio State University, May 1981), p. v.

12. Joseph Ball and Carl Wolfhagen, The Participation of Private Businesses as Work Sponsors in the Youth Entitlement Demonstration (Manpower Demonstration Research Corporation, March 1981), p. xvi.

Although employment demand might be increased for those among the target groups who are more job-ready, this might be at the expense of other youths or unskilled adults who are ineligible for the subsidy.

Options for Altering the TJTC Program

An employment subsidy cannot be effective at increasing employment demand for disadvantaged youths if employers will not use it. These options focus on ways to increase use by employers but, to the extent that they were successful, costs of the employment subsidy would increase as well.

The options discussed here would:

- Provide blanket vouchering of eligible applicants;
- Increase the value of the credit;
- Change the tax credit to a direct expenditure; or
- Subsidize low-wage jobs instead of selected population groups.

Provide Blanket Vouchering of Eligible Applicants. The Employment Service could issue vouchers to all jobseekers eligible for the TJTC and instruct them on how to use the vouchers as a self-marketing aid.

Proponents argue that blanket vouchering would increase employers' use of the TJTC, by essentially eliminating employers' concern that the screening questions necessary to identify eligible job applicants might violate fair hiring laws and by mitigating their fear of involvement with government. Employers who desired could tilt their hiring toward eligible applicants without the need to ask questions about age and income. The Employment Service would be better able to respond to employer requests for eligible applicants. For employees who were not hired through the Employment Service, the employers' only necessary contact with the administering agencies would be to return to the Employment Service the vouchers of eligible applicants hired in order to obtain certification for the tax credit. Currently, vouchers are typically issued only after an eligible applicant has already found employment.

On the other hand, blanket vouchering and self-marketing instruction would increase the administrative costs of the program, with perhaps little increased use of the credit. Employment Service offices that have experimented with blanket vouchering and self-marketing frequently find that voucher recipients discard them.[13]

Increase the Value of the Credit. Greater use by employers might be induced by a legislated increase in the value of the TJTC or by making the tax credit refundable.[14]

It is argued that low use occurs, in part, because the subsidy provided by the TJTC is not large enough to induce employers to alter their usual hiring practices. There are two bases on which this argument can be made. First, the 50 percent reduction in after-tax wage costs provided by the TJTC may be too small, per employee, to compensate employers for the lower productivity they may anticipate from eligible employees, relative to others they might have hired. Second, the dollar value of tax savings provided by the TJTC may be too small to compensate for the expense of implementing new recruiting practices designed to identify eligible applicants. Before the recent tax changes, savings could range from $900 for an employer in the 70 percent tax bracket to $2,580 for one in the 14 percent bracket for each eligible employee paid $6,000 or more during the first year of employment.[15]

Further, the TJTC does not affect nonprofit corporations or other employers with no tax liability, although many such employers are new or expanding businesses that might be expected to provide good job opportunities for TJTC target groups. The tax

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13. The Mershon Center, Report No. 3, p. 58.

14. Refundable tax credits are paid directly or "refunded" to recipients if their tax liability is less than the amount of the credit.

15. The savings vary by tax bracket because the employer's tax deduction for wages paid is reduced by the amount of the credit. Starting in 1982 the maximum tax rate drops from 70 to 50 percent. The rate of subsidy for wage costs, however, is 50 percent in the first year of employment and 25 percent in the second year regardless of the employer's tax bracket.

revisions related to depreciation enacted in 1981 will result in a substantial reduction over time in taxes on business income, making nonrefundable tax credits like the TJTC of value to fewer employers. Employers without tax liability could benefit from the TJTC if the tax credit was made refundable.

On the other hand, although results from the YIEPP demonstration indicate that higher rates of subsidy can induce more employers to participate in a program for hiring disadvantaged youths, participation rates were still relatively low--18 percent--even with a 100 percent subsidy. Further, the dollar value of the credit to taxable employers will increase in 1982 even without further legislation since the reduction in tax rates contained in the Economic Recovery Tax Act of 1981 will reduce the offset from nondeductibility of a portion of wages. Minimum savings to taxable employers for each eligible employee earning $6,000 or more will increase from $900 yearly to $1,500. Finally, there is little evidence that the nonrefundable nature of the TJTC is an important factor inhibiting employer use. Employers surveyed do not often mention limited tax liabilities as a barrier to participation, perhaps because of the carry-back and carry-forward provisions.[16]

Change the Tax Credit to a Direct Expenditure. The employment subsidy could take the form of a direct expenditure--a bonus paid to employers to reimburse them for some portion of the wages paid to employees in selected groups. If the bonus was set at 50 percent of wages up to $6,000 for the first year of employment, and 25 percent of wages up to $6,000 for the second year, this would have the same effect as making the current TJTC refundable. It would differ only in that it would be a direct expenditure program instead of a tax expenditure. As such, its costs would be more visible and more readily subject to control through the budget process. Further, administration of the program could be consolidated in the Department of Labor, thereby eliminating the role of the Internal Revenue Service and the attendant problems of shared responsibility. Administration of an expenditure program, however, might be more costly than a program of tax credits.

Subsidize Low-Wage Jobs Instead of Selected Population Groups. Employers could be given a bonus for all low-wage workers hired, regardless of their socioeconomic characteristics. The bonus--called a wage-bill subsidy--could be a fixed amount per

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16. The Mershon Center, Report No. 3, p. 64.

hour for each worker hired below a certain target wage, or it could equal some percentage of all wages paid to workers whose hourly rate was below the target wage.

Employer responses to a survey conducted in 1980 by the General Accounting Office (GAO) indicate that use of the TJTC would have been higher if the subsidy had been targeted on low-wage jobs rather than on certain socioeconomic population groups.[17] This may reflect employers' reluctance to ask the questions necessary to determine eligibility, or it may be that employers have very negative expectations about the productivity of the population groups eligible under the TJTC. In either case, a subsidy for low-wage employees regardless of socioeconomic status would reduce employers' reluctance to participate, while tending to increase the ratio of low-skill to high-skill jobs in the workplace. The increased demand for low-skill employees would improve employment prospects for those who were job-ready among the disadvantaged population groups currently eligible under the TJTC.

Such a wage-subsidy program would be poorly targeted and expensive, however. Data for 1978, for example, show that only 11 percent of minimum wage workers were from families with poverty-level incomes; about 60 percent of minimum wage workers had annual family incomes of $10,000 or more.[18] The GAO has estimated that a wage-bill subsidy of $1,500 per eligible employee--75 cents per hour for full-time full-year employees--for all new hires at the minimum wage would have cost $8.2 billion if fully operational in 1980. The estimated cost per job created would have been $7,272.[19] Further, a wage-bill subsidy could impede efforts to upgrade the jobs held by workers at the lower end of the wage distribution.[20]

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17. Letter, Martin A. Meyers to Senator John Heinz.

18. Curtis L. Gilroy, "A Demographic Profile of Minimum Wage Workers," in Report of the Minimum Wage Study Commission, vol. II (June 1981), pp. 178, 181.

19. Letter, Martin A. Meyers to Senator John Heinz. If the wage-bill subsidy applied only to incremental hires at the minimum wage, the estimated cost would have been $1.4 billion, or $1,272 per job created. There are, however, serious problems of measurement and implementation for a subsidy limited to incremental hires.

20. Frank C. Pierson, The Minimum Level of Unemployment and Public Policy (Upjohn Institute, 1980), pp. 185-86.

ECONOMIC DEVELOPMENT SUBSIDIES

One of the factors that may have contributed to rising rates of unemployment, especially among minority youths, has been the relative decline in business activity in the central cities, particularly in the older cities of the Northeast and Midwest. One way of increasing employment demand for disadvantaged youths is to stimulate the growth of low-skill job opportunities in these areas, where much of this population is concentrated. This has been one of the goals of federal economic development programs in recent years, on the grounds that some people wish to remain where they currently live and also that there are social costs to abandoning existing fixed capital.

Current Economic Development Programs

The major existing federal programs for urban economic development are the grant and loan programs provided through the Economic Development Administration (EDA) in the Department of Commerce; and the Urban Development Action Grants (UDAG) and the Community Development Block Grants (CDBG) programs provided through the Department of Housing and Urban Development.[21] These programs provide place-oriented incentives for private-sector investment in areas of high unemployment or low income. Some of the incentives provided are direct, such as loans or loan guarantees for firms that invest in target areas; others affect private capital indirectly, such as grants to public bodies for the development of infrastructure that makes the area more attractive to business. A total of $1.0 billion has been appropriated for economic development activities under EDA and HUD programs for fiscal year 1982.

Current economic development programs have other goals in addition to the creation of job opportunities, including the improvement of the physical environment and the fiscal capacity of the targeted areas. The focus here, however, is on the value of these programs in dealing with the youth employment problem.

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21. See Congressional Budget Office, Local Economic Development: Current Programs and Alternative Strategies (June 1981), p. 27.

Although evidence is fragmentary, it seems unlikely that current federal economic development programs have been very successful at generating increased employment for disadvantaged groups, either youths or adults, for two reasons. First, these programs may not have much influence on business location decisions. To the extent that such financial incentives are considered, state and local programs--especially differential tax rates--probably dominate federal efforts. Since much of the nation qualifies under one or another federal program, some firms seeking a new site apparently first settle on the location, and then determine the programs for which they are eligible. Although some downtown areas have been revitalized with the use of EDA or UDAG funds, it appears that federal development funds have frequently been used as an "incentive" to private-sector projects that would have been undertaken in any case.[22]

Second, the employment generated by businesses that have located in distressed areas does not appear to benefit the chronically unemployed in those areas. No surveys of the net employment effects of UDAG and CDBG projects are available.[23] A study of EDA's business development program, however, reports that most of the permanent employees hired by assisted firms had been previously employed--only 11 percent of the new jobs and the positions vacated by those previously employed went to unemployed workers. A recent review of the hiring practices of Philadelphia-area firms that received publicly financed assistance, including EDA funds, found that few low-income, unemployed persons were hired. Most of the firms receiving help were weak financially and concerned about avoiding the extra labor costs they thought would come with hiring the unemployed or unskilled.[24]

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22. See Everett Crawford and Carol Jusenius, "Economic Development Policies to Reduce Structural Unemployment," in National Commission for Employment Policy, Sixth Annual Report (December 1980), pp. 174-75. For a more positive assessment of current federal economic development programs, see Local Economic Development.

23. Net employment effects are jobs created by the program net of windfalls to assisted firms and net of jobs lost elsewhere.

24. Local Economic Development, pp. 47-48.

Options for Altering Current Programs

Although current programs have probably had little impact on employment, there are some options that might enhance the effectiveness of economic development programs in increasing employment in distressed areas. The options discussed here would:

- Concentrate program funds on low-skill labor-intensive industries; or
- Link the program to hiring requirements or hiring subsidies.

Concentrate Program Funds on Low-Skill Labor-Intensive Industries. So long as business location decisions are at all affected by economic development programs, the demand for unskilled labor could be more efficently increased in targeted areas by aiding only firms whose production processes require heavy use of low-skill labor. The allocation of UDAG funds for commercial projects provides an example of this--such grants have frequently been used for the construction of hotels that make heavy use of low-skill labor for housekeeping and food services.[25]

By awarding grants only for labor-intensive activities, the possibility of adverse employment effects from the capital subsidies provided by economic development programs could be reduced. Without such selection among applicants, it is argued that there is little reason to believe that employment opportunities for unskilled workers would be improved, because the subsidies cheapen capital relative to labor, and hence favor businesses that are relatively capital-intensive. Because capital and low-skill labor tend to be substitutes in production, the result is that the demand for low-skill labor falls.[26]

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25. See Susan S. Jacobs and Elizabeth A. Roistacher, "The Urban Impact of HUD's Urban Development Action Grant Program" (paper presented at a conference on The Urban Impact of Federal Policies, sponsored by the Department of Housing and Urban Development, February 1979), p. 27.

26. See Daniel S. Hamermesh, "Econometric Studies of Labor Demand and Their Application to Policy Analysis," Journal of Human Resources, vol. 11 (Fall 1976); and William H. Oakland, Yutaka Horiba, and Allan Zelenitz, "Effectiveness of Alternative Demand Policies in Reducing Structural Unemployment" (paper prepared for the National Commission on Employment Policy, October 1980), p. 18.

On the other hand, this approach could encourage the growth of industries that may not be viable in the United States without continuing subsidies. This result might be avoided by targeting grants on service activities instead of goods-producing industries that must compete in international markets.[27]

Link the Program to Hiring Requirements or Hiring Subsidies. Firms receiving program benefits could be required to hire some proportion of their work force from economically disadvantaged residents of the targeted area.[28] To be effective at generating increased demand for these residents, the requirement must exceed what the firm would have hired anyway, and yet not be so high as to eliminate the program's benefit to the firm. Hence, considerable knowledge of each industry's production processes might be necessary to set appropriate requirements, since these would probably differ among firms. Administrative complications could arise from changes in income and residential status of employees who are initially eligible.

Wage subsidies or tax credits for hiring disadvantaged residents could be used as an alternative to the imposition of hiring requirements on firms receiving program benefits. This would eliminate the need for knowledge of industry production processes, but complications arising from changes in income and residence among employees would remain. Such a coupling of employment subsidies with place-oriented capital investment subsidies is contained in several of the enterprise-zone proposals currently before the Congress.[29] A variant would be to combine hiring requirements with an employment subsidy in the form of training assistance to firms locating in distressed areas. With this policy, assisted firms could be required to hire a substantial

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27. National Commission for Employment Policy, Sixth Annual Report, p. 181.

28. A requirement of this sort is currently imposed for a small proportion of UDAG grants--those targeted on "pockets of poverty" in otherwise healthy jurisdictions.

29. See H.R. 2950, H.R. 2965, H.R. 3824, and S. 1240. H.R. 3824, for example, eliminates capital gains taxation on equipment and property and provides employers and CETA-eligible employees with a 5 percent refundable credit based on the worker's wage.

proportion of their work force from among disadvantaged residents, since training subsidies would enable the firms to teach the necessary work skills. Although the firms could be expected to select the best of the eligible population for training, even the most disadvantaged in the target area might ultimately benefit as vacancies for low-skill workers were created in firms that the newly trained workers had left.

MINIMUM WAGE PROVISIONS

The federal minimum wage was established in 1938 by the Fair Labor Standards Act (FLSA). It initially covered only workers directly engaged in interstate commerce or in the production of goods for interstate commerce. The minimum wage set by this initial legislation was $0.25 an hour. Since 1938, there have been numerous increases in the legislated minimum, as well as amendments extending coverage to a larger proportion of the work force. The last change scheduled under existing legislation was implemented in January 1981, when the federal minimum wage was increased from $3.10 to $3.35 an hour.

Although the nominal value of the minimum wage has steadily increased since its inception, the value of the minimum wage relative to the price level or to average hourly earnings in the economy has not changed appreciably since the 1960s. By contrast, minimum wage coverage has increased significantly in recent years. Amendments in 1961 extended coverage to many workers in retail trade. Amendments in 1967 extended coverage to more workers in the service sector, as well as to many agricultural workers. In 1974 coverage was extended to domestic servants. Currently, about 90 percent of private-sector nonsupervisory employees are covered by minimum wage legislation.

The consensus of current research is that increases in the level and coverage of the federal minimum wage have reduced employment opportunities for youths in recent years. The staff of the Minimum Wage Study Commission has estimated that each 10 percent increase in the minimum wage relative to the average wage in the economy reduces the number of teenagers employed by about 1 percent. Further, some jobs that were full-time are reduced to part-time jobs in response to minimum wage increases. The Commission has estimated that each 10 percent increase in the minimum wage reduces full-time equivalent teenage employment by about 1.5

percent.[30] Although less work has been done on the effects of the minimum wage on the employment of young adults aged 20 to 24, indications are that their employment losses are also significant but smaller in magnitude than those observed for teenagers. The Commission has estimated that a 10 percent increase in the minimum wage might reduce the employment of young adults by 0.25 percent.[31] The adverse employment effects of the minimum wage appear to be more severe for nonwhite youths than for whites.[32]

Minimum Wage Options

The options discussed here are intended to lessen the adverse effects of the minimum wage on youth employment. They include:

- Implement a youth subminimum wage; or
- Leave the minimum wage unchanged.

Implement a Youth Subminimum Wage. Several bills are currently pending in the Congress that would allow employers to pay youths 75 or 85 percent of the otherwise applicable federal minimum wage.[33] A youth is defined as a person less than 19 or 20 years of age. Additional provisions sometimes include an

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30. Report of the Minimum Wage Study Commission, vol. I (May 1981), pp. 38-39. The Congress created the Commission in 1977 (P.L. 95-151) and directed it to study and report on the social, political, and economic ramifications of the minimum wage, overtime, and other requirements of the Fair Labor Standards Act of 1938.

31. Report of the Minimum Wage Study Commission, vol. I, p. 41.

32. Finis Welch, Minimum Wages: Issues and Evidence (American Enterprise Institute, 1978), pp. 34, 35; George Iden, "The Labor Force Experience of Black Youth: A Review," Monthly Labor Review, vol. 103 (August 1980), p. 13; and Jacob Mincer, "Unemployment Effects of Minimum Wages," Journal of Political Economy, vol. 84 (1976), p. S104.

33. S. 348, S. 430, H.R. 157, H.R. 1068, H.R. 2001, and H.R. 5039. See Proposals for a Subminimum Wage for Youth (American Enterprise Institute, 1981), pp. 32-33, for a description of these bills.

extension of the subminimum wage to full-time students regardless of age, as well as prohibitions against displacing older workers in favor of youths eligible for the subminimum wage. Further, the proposals limit the period of time that the subminimum wage would apply for a new employee, with a prohibition against terminating the employee at the end of that period in order to take continual advantage of the subminimum wage. The usual time limitation proposed is six months.

The Minimum Wage Study Commission tentatively estimates that if there was no time limitation a 75 percent subminimum wage for teenagers would increase teenage employment by perhaps as much as 5 percent--an increase of about 400,000 jobs in 1981 on a teenage employment base of 8 million.[34] If an employer could pay the subminimum wage to an employee only for a limited period of time, it would likely reduce the employment gains, but no estimates of magnitude are available.

The beneficial effects of a youth subminimum wage could be targeted on any desired age segment of the population simply by appropriate specification in the legislation, but targeting on the most disadvantaged among that population would be more difficult to ensure. The fact that employers have not made much use of the more generous employment subsidies for hiring disadvantaged youths under the TJTC and the Youth Incentive Entitlement demonstration projects suggests that disadvantaged teenagers may not be the primary beneficiaries of teenage employment increases brought about by a youth subminimum wage. On the other hand, because youths enrolled in school and employed in the retail, service, or education sectors are currently eligible for a subminimum wage through special Department of Labor certification, a universal youth subminimum would eliminate this advantage for enrolled youths. This would tend to increase the employment of nonenrolled teenagers--who are on average from less affluent families--at the expense of enrolled teenagers.[35]

A sizable portion of teenage employment gains, however, might come at the expense of low-wage adult workers. The Minimum Wage Study Commission suggests that perhaps one-third of new teenage jobs would be at the expense of displaced adults, primarily

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34. Report of the Minimum Wage Study Commission, vol. I, p. 48. Some of the employment gain would be for part-time jobs.

35. Ibid., vol. V., p. 398.

low-wage women.[36] Although subminimum wage legislation could attempt to minimize displacement by imposing penalties on employers who release higher-wage workers in order to take advantage of the youth differential, it is unlikely that penalties could prevent the substitution of youths for adults in the case of new jobs or replacements for voluntary quits. As a result, jobs might be switched from a population of adults with typically lower family income and more financial responsibilities to a population of teenagers typically from families with higher income.[37]

Leave the Minimum Wage Unchanged. A gradual reduction in the real value of the minimum wage could be accomplished by leaving its current value unchanged. If no new minimum wage legislation was introduced, the current minimum wage of $3.35 would continue in effect. Under current CBO assumptions, by 1985 inflation would reduce the real value of the minimum wage by almost 25 percent.[38]

Over time, this option would increase employment demand for youths without displacement of adults. In fact, employment for low-wage adults would increase as well. A fall of 25 percent in the real value of the minimum wage might increase the number of teenagers employed by about 2.5 percent--a gain of about 200,000 jobs in 1981. One estimate indicates that the gains in adult employment arising from a 25 percent fall in the real value of the minimum wage would be about twice the number of new teenage jobs created, yielding total employment gains equal to 600,000 jobs in 1980.[39]

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36. Ibid., vol. I, p. 47.

37. See Carolyn Shaw Bell, "Minimum Wages and Personal Income," Table 9, in Simon Rottenberg, ed., The Economics of Legal Minimum Wages (American Enterprise Institute, 1981).

38. As of January 1982.

39. Calculated from estimates by Mincer, "Unemployment Effects of Minimum Wages," p. S104. These predictions of increased employment assume that the supply of workers at any given wage is no constraint. This is reasonable for the teenage work force, but supply constraints may be more important for the adult work force.

A much larger number of workers already earning the minimum wage would experience a decline in real earnings, however, if their wages failed to rise because of the unchanged minimum wage. In 1980, there were about 5.3 million workers earning the minimum wage. If their wages were unchanged, by 1985 the reduction in their real annual earnings would be about three times the aggregate earnings of those gaining minimum wage employment.

CHAPTER V. INCREASING EMPLOYABILITY

The development of basic academic and work skills depends heavily on public education and training programs. Private-sector employers do not generally undertake such activity because the skills developed would be readily transferable to other employers, making it uncertain that employers who paid for the training would recoup their investments.[1] Employers usually confine themselves to the kinds of on-the-job training that are necessary for their own specific needs. Consequently, the more basic training discussed in this section is typically funded by the government, although ways to encourage private-sector participation are under discussion. The programs analyzed below, with options for altering them, are:

- Employment and training programs; and
- Vocational education.

EMPLOYMENT AND TRAINING PROGRAMS

The Comprehensive Employment and Training Act (CETA)--enacted in 1973--authorizes a full range of training and employment-related services, including classroom and on-the-job training, work experience, basic and remedial education, counseling, job search assistance, and payment of allowances. The purpose of the act was to consolidate federal programs and to decentralize the federal training effort by placing primary responsibility for planning and implementation at the local level, with funding from the federal budget. The administering agencies at the local level--called prime sponsors--are typically state, county, or city governments.

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1. Training in basic skills by private employers is not unheard of, though. See Ernst Stromsdorfer, "Training in Industry," in Peter Doeringer, ed., Workplace Perspectives on Education and Training (M. Nijhoff, 1981), p. 51.

Overall appropriations for CETA in fiscal year 1982 are about $3.0 billion. Of this, $1.4 billion is for programs under Title IV, providing employment and training for economically disadvantaged youths. Another $1.2 billion is for programs under Title II, for which both youths and adults are eligible. About $0.2 billion is authorized for private-sector initiatives under Title VII (see Table 8).

Because of the diversity of services provided by prime sponsors under CETA, it is difficult to assess the effectiveness of CETA overall. Except for the Job Corps and the national programs under Title III--which are federally administered--training provided under CETA is so decentralized that there is no national "system" of training. Prime sponsors at the local level are free to provide whatever mix of services they choose, within the constraints of an often-changing set of restrictions imposed by legislation and regulation.

Certain conclusions can be drawn, however, from analysis of particular employment and training programs for disadvantaged youths:[2]

- Success in the work place is closely related to basic writing, communication, and computational skills.
- Work experience alone does not appear to improve the employability of disadvantaged youths, even when the work experience is well supervised and highly supportive.[3]
- Substantial gains in employability are possible for disadvantaged youths when they are offered a combination of services including remedial education, well-structured work experience, and training. Gains in employability appear to be related only to the time spent in education and training activities, although work experience can be useful as motivation to continue.

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2. See Ernst W. Stromsdorfer, "The Effectiveness of Youth Programs: An Analysis of the Historical Antecedents of Current Youth Initiatives," in Anderson and Sawhill, Youth Employment and Public Policy, pp. 107-108; and Taggart, A Fisherman's Guide, pp. 9-11.

3. Manpower Demonstration Research Corporation, Summary and Findings of the Supported Work Demonstration, p. 9. By contrast, work experience does appear to benefit adult women.

TABLE 8. COMPREHENSIVE EMPLOYMENT AND TRAINING ACT: AUTHORIZED FUNDING AND APPROPRIATIONS, FISCAL YEAR 1982 (In millions of dollars)

Program	Authorized Funding	Appropriations	Program Description	Service Year Costs
Title II-B,C	1,431	1,152	Training programs (61 percent of all participants) and work experience (33 percent) for persons of all ages. Title II-B participants must be economically disadvantaged and unemployed, underemployed, or in school.	N/A
Title III	219	179	Various programs to serve groups with special labor-market problems, including migrant farm workers, Native Americans, "displaced" homemakers newly joining or re-entering the job market, youth, and older workers.	N/A
Title IV-A (YETP)	576	192	Various projects, some developed cooperatively with local school districts, primarily for low-income youth aged 14 to 21. Participants are enrolled in career employment experience (42 percent), work experience (20 percent), training (13 percent), and transition services (24 percent).	4,700
Title IV-B (Job Corps)	628	586	Intensive training and rehabilitation for economically disadvantaged youth aged 14 to 21, mostly in residential centers.	14,100
Title IV-C (SYEP)	766	640	Nine-week summer work projects for economically disadvantaged youth aged 14 to 21.	980
Title VII (PSIP)	275	230	Provides for Private Industry Councils to work with prime sponsors to increase private-sector participation in CETA activities.	N/A
CETA Program Total	3,895	2,978		

N/A = Not available.

SOURCES: Funding authorization is from the Omnibus Reconciliation Act. Appropriations are from H.J. Resolution 370 (P.L. 97-92), as interpreted by the agency budget officer. Program description is from Congressional Budget Office, Youth Employment and Education: Possible Federal Approaches (July 1980), p. 11. Service year costs are estimates from the Department of Labor, Employment and Training Administration.

- Development and strict maintenance of minimum behavioral and program performance standards is important to program success. Failure to weed out noncooperative participants is self-defeating.

- Placement services and job-search training appear to be low-cost and effective ways to increase short-term employment rates for job-ready youths.

These findings suggest that many current youth programs under CETA are not likely to be effective at developing employability because they provide principally work experience with little enrichment via education or training. Further, resources are sometimes wasted on noncooperative participants who are attracted by the wages or training allowances and the lax performance standards for participants.[4]

The Job Corps, however, is one ongoing youth program that provides substantial education and training. Follow-up of Job Corps participants who complete the program indicates that their post-program earnings and employment rates are significantly higher--by at least 15 percent--than those of a comparable group of youths used as a control. Further, these benefits do not appear to decay over time. Although the intensive remedial education and training provided in the Job Corps is expensive--more than $14,000 per full-time full-year training slot in 1982--one study estimates that benefits from the Job Corps exceed costs by at least 39 percent.[5]

Although not effective at increasing long-term employability, CETA work experience programs have helped to increase immediate employment for disadvantaged youths. During 1978, at the peak of CETA activity, almost 8 percent of all youths between 14 and 21 participated in some government employment and training program. About 22 percent of all black teenagers employed in October 1978 were working in CETA programs. More than 40 percent of black

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4. Taggart, A Fisherman's Guide, p. 315.

5. See Charles Maller and others, The Lasting Impacts of Job Corps Participation (Mathematica Policy Research, May 1980), p. 153.

youths between 20 and 22 had participated in at least one government program at some time during their teenage years.[6]

Work experience programs can also be useful when used as an inducement to disadvantaged youths to persevere with their education. The Youth Incentive Entitlement Pilot Project (YIEPP)--funded under Title IV-A of CETA--showed that dropouts and potential dropouts could be induced to continue their high school education by the guarantee of a job while they did so. The estimated cost per service year of providing a part-time job during the school year and a full-time job during the summer months is $4,900 for 1982.

Options for Altering CETA Youth Programs

Considerable dissatisfaction has been expressed with CETA programs run by local prime sponsors, for several reasons.[7] There are doubts about the effectiveness of many current youth programs. There are concerns about duplication and lack of coordination with other programs, including vocational education and the Employment Service. And there is the belief that greater private-sector participation is desirable in the planning and implementation of programs.

The options discussed here are intended to address these issues. They would:

- Maintain the current delivery system, with modifications;
- Allocate CETA funds to a single state agent;
- Absorb all CETA programs into the vocational education system; or

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6. Employment and Training report of the President, 1980, p. 147; and Joan E. Crowley, "Government Sponsored Employment and Training," in Michael E. Borus, ed., Pathways to the Future, Vol. I, Ohio State University Center for Human Resource Research (May 1981), pp. 356, 425.

7. Dissatisfaction with CETA may be partly induced because it is decentralized, and public attention is often focused on the worst programs at the local level.

- Offer a coordinated combination of services through secondary education and federal training programs.

No modification to the federally-administered Job Corps program is considered.

Maintain the Current Delivery System with Modifications. Implementation of employment and training programs could continue as the responsibility of state and local prime sponsors. Many would say that the current system has not been given a chance to work because CETA prime sponsors have had to devote major resources to coping with uncertain funding and frequent legislative changes. A period of stability might permit the existing system to deliver the benefits initially expected from decentralization--the implementation of effective programs suited to local needs. On the other hand, decentralization of responsibility among 475 prime sponsors can result in waste through administrative duplication and through lack of program coordination within labor market areas.

If the current delivery system was continued, useful modifications could include:

- Forward funding;
- Program consolidation;
- Mandated requirements for education or training;
- Greater incentives for training by private employers;
- Less emphasis on income transfers; and
- Targeting of funds on distressed areas.

Forward funding--appropriation of funds some or all of which may be spent in succeeding fiscal years--could improve implementation of CETA programs by giving prime sponsors more time for planning. In addition, forward funding would eliminate one of the current barriers to greater coordination between CETA prime sponsors and local education agencies. CETA programs run on a fiscal year basis--from October 1 to September 30--and have been subject to almost yearly uncertainty about the amount of funding that would be made available by the Congress. Most education programs, by contrast, are funded either on a calendar year basis or from July 1 to June 30, with programs beginning at the start of the

school year in September. Unlike CETA, the federal contribution to education programs is forward-funded, so that ample time for planning is available for education programs before the funds are distributed. Educators have been reluctant to plan joint projects with CETA prime sponsors for the coming school year in the face of uncertainty about what CETA funds would be available.[8] Forward funding would, however, require a doubling-up of appropriations for the first year in which it was implemented. Although outlays would be less affected, the one-year increase in budget authority might be difficult to accomplish in a period of severe budgetary restraint. Forward funding would also further reduce federal control over current outlays.

Program consolidation would eliminate separate program mandates and differing eligibility requirements. In its reauthorization for 1982 of the youth programs under Title IV-A of CETA, the Congress permitted prime sponsors to consolidate some previously separate youth programs.[9] Further flexibility could be had by consolidating funds for Titles IV-A (YETP) and IV-C (SYEP) youth programs with Title II adult programs.[10] It is argued that this would free prime sponsors to develop programs best suited for their eligible populations. Arguments against this are that reducing the restrictions on grants to prime sponsors would also reduce the ability of Congress to ensure that certain national objectives are addressed. For example, youths may be underserved by prime sponsors if there is no youth setaside, especially if the performance standards used by the Department of Labor stress job placement rates. Consolidation of funding for youth and adult programs would require recognition in the performance standards

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8. CETA-Vocational Education Coordination (U.S. Conference of Mayors, January 1981), p. 7.

9. Funds previously allocated to separate programs under Title IV-A can now be used for either of the programs (YETP or YCCIP). Further, prime sponsors are permitted to use up to 20 percent of the funds allocated for Title IV-A programs for Title IV-C (SYEP) programs instead, and vice versa.

10. A number of different programs were initially authorized in 1977 under Title IV-A by the Youth Employment Demonstration Projects Act for the purposes of experimentation and knowledge development. The legislative language indicated that eventual consolidation was intended [P.L. 95-524, Title I, Section 127(c)].

that job placement is not always the only successful, or even the best immediate outcome for disadvantaged youths. Return to school, acceptance into a skill-training program, or measurable improvement in literacy might be equally appropriate measures of success.[11]

Mandated requirements for education or training may be necessary to offset other factors that lead prime sponsors to emphasize work experience programs over classroom and on-the-job training, even though the latter are ultimately more successful at increasing employability for youths. According to one study, the planning and monitoring systems in CETA are so structured that prime sponsors see only the immediate post-program results and not the long-term impact of employment and training assistance. For this reason, and also because of CETA's history of policy reversals and funding uncertainty, programs are geared to short-term palliative goals rather than to quality training. The greater gains in employability from classroom training are generally not apparent until several months after termination--and prime sponsors generally do not track participants for that long. The higher placement rate resulting from on-the-job training (OJT) is apparent immediately, but prime sponsors have difficulty in marketing OJT to employers--a difficulty that is compounded by federal regulations.[12] On the other hand, mandated requirements for education or training might mean that fewer program participants could be

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11. S. 2036, introduced by Senators Quayle, Kennedy, Hawkins, and Pell in the second session of the 97th Congress, would consolidate all locally administered training programs into a single grant to states. The proposal provides for a youth setaside and for separate performance standards for youth and adult participants. Under the proposal, stipends for program participants would be eliminated, except for modest sums offered as a reward to those who have successfully completed parts of the program. The proposal would allow trainees to be placed with private employers for a tryout period of fully subsidized employment. Funds would be allocated to the states in proportion to their share of long-term unemployed and economically disadvantaged persons; states would be required to distribute funds among service delivery areas in proportion to each area's share of economically disadvantaged persons.

12. See Taggart, A Fisherman's Guide, p. 299.

served due to the additional costs of instruction and the longer period of participation that may be required for effective training. Further, greater emphasis on training might be obtained by changing certain existing program requirements rather than by adding more. In particular, more emphasis on long-term earnings gains rather than costs per placement in the performance standards used by the Department of Labor might encourage prime sponsors to implement programs with higher, but more distant, gains in employability. In addition, more OJT programs might result if the regulations governing training contracts with private employers were modified.

Greater incentives for training by private employers might induce more private-sector participation in employment and training efforts. Current CETA regulations that circumscribe the conditions under which payments to employers organized for profit can be made make it difficult for prime sponsors to implement OJT programs. Under current regulations, private employers running OJT programs under contract with a CETA prime sponsor are typically reimbursed for 50 percent of wages paid to trainees, plus any extraordinary costs associated with the program. This rate of subsidy may not be adequate to compensate employers for the costs of hiring and training disadvantaged youths.[13] In addition, it is believed that a substantial part of employer reluctance to contract with CETA prime sponsors for OJT programs is because employers running such programs are generally expected to retain the participants in unsubsidized employment once the training period is over, even if some trainees prove to be unsuitable. Prime sponsors could be authorized to provide full wage subsidies to employers providing suitable employment and training for disadvantaged youths during an initial trial period in which the

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13. YIEPP results indicate that the proportion of private-sector employers willing to hire disadvantaged youths was 5 percent when offered a 50 percent wage subsidy; 10 percent in response to a 75 percent wage subsidy; and 18 percent when a 100 percent wage subsidy was offered. See Bali and Wolfhagen, The Participation of Private Business, p. xvi.

employer is free to weed out unsuitable trainees.[14] Proponents argue that on-the-job-training has proved to be more successful than classroom instruction at improving employability, and that OJT should take place in the private sector to the greatest extent possible since that is where most jobs are. On the other hand, it may be difficult to ensure that suitable training opportunities are provided by private employers. Further, some part of the employment subsidy is certain to result in windfall benefits to employers--providing compensation beyond that necessary to pay for the extra costs of hiring disadvantaged workers. Such windfalls could be reduced only by stringent restrictions on recipients of employment subsidies, such as exist in current CETA regulations.

Less emphasis on income transfers could both reduce program costs and improve program effectiveness. CETA participants typically receive at least the minimum wage for all hours of participation in either training or employment programs.[15] All of it is income transfer for those in classroom programs, and some of it is income transfer for those in public employment and OJT programs. More persons could receive work or training if wages and allowances were reduced. Modification of the pay structure from the current uniform hourly rate for all participants could permit a reward structure with incentives for good performance and individual development. Further, low (or zero) initial allowances would help to ensure that program participants were motivated, since those with little interest in training would not be attracted. On the other hand, some enrollees could not afford to participate if allowances were reduced, although this problem could be reduced by registering participants for welfare benefits

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14. Another way to increase training by private employers that has been suggested is to impose an additional payroll tax, whose revenues would be reserved for training activities. Employers who implemented suitable training programs would be eligible for a refund of some or all of their payroll tax, while the revenues collected from employers who did not implement training programs could be used to fund public training programs. See Taggart, A Fisherman's Guide, p. 343.

15. The Job Corps is an exception. In addition to room and board, Job Corps participants receive a stipend of $40 a month at entry. The stipend increases to as much as $100 a month for participants who remain for six months or more. A readjustment allowance, based on duration of stay, is paid upon termination.

to which they are entitled. For those in work experience or OJT programs, reduced allowances may conflict with minimum wage laws, although some flexibility is permitted under the Fair Labor Standards Act through the learner's differential.

Targeting funds on distressed areas could result in more effective use of CETA funding, especially if further budget reductions are necessary. Currently, CETA funds are allocated by formula among prime sponsors on the basis of their share of the poor and unemployed in the population, with no matching requirement and no minimum grant. Funds could instead be allocated only to prime sponsors in distressed areas--areas with some minimum specified incidence of poverty or long-term unemployment.[16] In a period of severe budgetary constraint, this could help to assure that CETA resources are adequate to implement effective programs in areas of greatest need. Although employment and training programs in areas no longer receiving CETA funds would be cut back, such services would be less essential in those areas. On the other hand, targeting funds only on distressed areas could penalize those areas that were dealing successfully with economic distress through their own efforts. Further, it may be futile to implement training programs in areas of high unemployment unless they are accompanied by efforts to encourage trainees to relocate.

Allocate CETA Funds to a Single State Agent. Instead of distributing funds to local prime sponsors directly, federal funds for employment and training could be allocated to a single agent in each state, which would be responsible for distribution of funds within the state. CETA currently mandates a state-level policy advisory board, called the State Employment and Training Council, which could be the designated agent.

This option could reduce the federal administrative burden, by transferring it to the states. It might result in better coordination among employment and training programs available within a state, if the state agents took an active role in the definition of recipient units within the state. Further, it might improve coordination with the vocational education system and with the state Employment Service, which are also local activities with oversight by a single state agent.

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16. Senator Dole's Private Sector Opportunities Act (S. 1797)--introduced in the first session of the 97th Congress--would target CETA Title VII funds only on distressed areas.

On the other hand, delegation of responsibility to state agents would reduce the ability of the federal government to ensure that funds are used for the furtherance of specific national goals. Opponents argue that states tend to be less responsive than the federal government to the needs of disadvantaged groups in the population. It might be necessary to impose targeting requirements on the states, and to monitor their performance in meeting these requirements, in order to ensure that federal funds are used as the Congress intended. But this, in turn, would reduce the administrative gains to be expected from delegation of responsibility to the states, and could result in simply adding another costly administrative layer between the federal government and the local agents who implement the program.

Absorb CETA Programs into the Vocational Education System. This redirection of CETA funds would represent a substantial increase in the federal contribution to vocational education. At current funding levels, the federal contribution for the 1981-1982 school year under the VEA would increase from $674 million to nearly $3 billion if all CETA funds except those for the Job Corps and for Title III national programs were redirected. Such a massive increase in federal funding for vocational education would require a lengthy phase-in period to permit an orderly expansion. If funds available for employment and training under CETA are cut substantially more, however, this option may be feasible where continuation of the current prime sponsor system is not.

This option would eliminate problems of coordination and duplication between CETA prime sponsors and state vocational education agencies, but would probably require substantial negotiation with the agencies to establish a framework acceptable to them that would address the education and employment problems of disadvantaged youths and adults. This would represent a major new responsibility for the vocational education system, and the mandate would have to be articulated clearly in the authorizing legislation in order to ensure that funds were targeted on the economically disadvantaged.

There would be difficulties, however, in moving the vocational education system toward services for the disadvantaged. The vocational education system currently serves persons who are not generally disadvantaged. Low-income central city areas are underserved. Services in remedial education and services for school dropouts are not well developed. Further, vocational education programs at the secondary level have not been found to be very effective at improving employability for youths without

serious disadvantages, so that there is little basis for confidence that they would be effective for disadvantaged participants.

Offer A Coordinated Combination of Services through Secondary Education and Federal Training Programs. Employment and training services for youths could be offered through a combination of CETA and in-school programs. The Job Corps could continue to serve severely disadvantaged out-of-school youths. Less disadvantaged youths who have already graduated from high school could continue to be served in adult programs. All remaining funds for youth employment programs could be used to provide part-time jobs to potential high school dropouts who agree to remain in or return to school--following the YIEPP model. Additional funds could be provided to the schools for compensatory education for those youths who are performing below grade level.

This option would permit current work experience programs for youths under Title IV-A and Title IV-C to be used more effectively, as a reward for continued education. The increase in literacy that should result could improve future labor market prospects for participants. The cost per service year for the employment part of this program should not differ substantially from the cost of current Title IV-A programs--less than $5,000--so that approximately the same number of youths could be served. The additional costs for compensatory education programs in the high schools might be funded by redirecting current expenditures under the VEA for this purpose.[17]

On the other hand, although the YIEPP model may result in appreciable gains in future employability for some disadvantaged youths, at half the cost of training in a residential Job Corps center, there is no assurance of this as yet.[18] Remedial education and workplace training may be only a part of the required elements for a program that is successful at enhancing future employability. The residential nature of the Job Corps may be an important component, for two reasons. First, youths who move to residential centers are placed in a different environment, one that perhaps provides more discipline than they would get at

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17. See the next section for a discussion of this option for vocational education funds.

18. The YIEPP demonstration sites ceased operations in August 1980. Evaluation of the program's long-term effects on employability have not yet been completed.

home. Second, temporary relocation to a residential Job Corps center apparently fosters permanent relocation out of depressed inner city areas since Job Corps participants are twice as likely as other disadvantaged youths to move from their home city for job-related reasons.[19]

VOCATIONAL EDUCATION

Vocational education--instruction in occupational knowledge and skills--has developed as an integral part of the public school system and, like the school system, it attempts to serve the needs of all persons in the community. The federal role in vocational education began in 1917 with the Smith-Hughes Act, but is currently authorized through the Vocational Education Act (VEA) of 1963 and subsequent amendments.

Federal legislation since 1963 has attempted to induce states to emphasize more the needs of selected disadvantaged groups, with some success, but the ability of the federal government to affect the distribution of vocational education services is dropping as the federal share of total expenditures for vocational education declines.[20] Although the funding provided by the federal government has risen over the years, state and local funding has increased even more so that the federal share of total funding for vocational education under the VEA has fallen from 36 percent in 1917 to 22 percent in 1962 and to less than 10 percent cur-

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19. Taggart, A Fisherman's Guide, p. 300.

20. The Vocational Education Act of 1963 established two service priorities: First, vocational education was to serve the needs of all persons in the community and, second, attention was to be directed to those who could not succeed in a regular vocational program because of academic or economic handicaps. The 1968 VEA amendments strengthened the second priority by mandating that 15 percent of federal vocational education funds be spent on meeting the needs of disadvantaged persons, but again the definition was tied to the inability to succeed in mainstream vocational education programs and not to economic characteristics per se. Later amendments included new targeting provisions for the handicapped and disadvantaged as well as sex equity requirements, but the definition of disadvantaged was unchanged from earlier legislation.

rently.[21] Additional federal support for vocational education occurs through CETA programs and, at the postsecondary level, through grants to individuals such as the Pell Grants.[22]

Programs under the VEA are forward-funded, meaning that funds that are to be used for program operations in one fiscal year are appropriated in the previous fiscal year. The amount appropriated in fiscal year 1981 for use in the 1981-1982 school year was $674 million; the fiscal year 1982 appropriation for use in the 1982-1983 school year is $646 million. These funds are distributed among the states largely on the basis of population, with relatively greater weight given to the secondary school population.

More than 50 percent of federal funds distributed for use in the 1982-1983 school year are basic grants available for virtually any use state and local vocational educators choose. Remaining funds are allocated to special-purpose programs of national interest. Less than 30 percent of federal funds distributed are legislatively targeted for disadvantaged or handicapped participants.

While there were approximately 17 million enrollees in vocational education courses in 1978, fewer than 7 million were in occupational programs of study. The others were enrolled in one or a few unrelated vocational education courses--such as home economics or shop.[23] Approximately 60 percent of all enrollments

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21. Mark Wolfe, "The Vocational Education Act of 1963 As Amended: A Background Paper," Congressional Research Service (April 1979), p. 4; and Mary A. Golladay and Rolf M. Wulfsberg, The Condition of Vocational Education (National Center for Education Statistics, July 1981), p. 129.

22. Pell grants are provided to low-income applicants to cover part of their expenses for postsecondary education or training.

23. National Commission for Employment Policy, The Federal Role in Vocational Education (September 1981), p. 2; The Vocational Education Study: The Final Report (National Institute of Education, 1981).

were in the high schools, 14 percent were in postsecondary institutions (primarily junior colleges), and 26 percent were in adult continuing education.[24]

Vocational education has been of some limited benefit to individual participants, although more so at the postsecondary than the high school level.[25] There is little evidence of positive labor market effects for men from vocational education at the high school level. Neither is there evidence that men in vocational education programs are less likely to drop out of high school than comparable students in the general curriculum. The results are the same for women, except for those in the business and office part of the vocational education curriculum. Women in office skills courses appear to be more likely to finish high school and to have higher initial earnings than their counterparts in other vocational education programs or in the general curriculum. The initial advantage for women in office skills programs, however, dissipates over time relative to women in the general curriculum. In contrast, postsecondary vocational education appears to be positively related to later earnings for both men and women, with the payoff somewhat larger for nonwhites than for whites. Postsecondary students may be better able to take advantage of specific skill training because they are older and more likely to have family responsibilities, to have acquired basic skills, and to have thought seriously about career options.

Vocational Education Options

The options discussed here would redirect federal expenditures for vocational education toward the economically disadvantaged. Options for vocational education at the secondary level are treated separately from those for postsecondary education.

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24. National Commission for Employment Policy, Expanding Employment Opportunities, p. 110.

25. See National Commission for Employment Policy, The Federal Role in Vocational Education; National Institute of Education, The Vocational Education Study: The Final Report (September 1981); and National Center for Research in Vocational Education, The Effects of Participating in Vocational Education: Summary of Studies Reported Since 1968 (May 1980).

Rely on Grants to Individuals for Postsecondary Education. At the postsecondary level, greater targeting of funds on the disadvantaged might be accomplished by eliminating grants to postsecondary institutions through the VEA, and relying solely on grants to low-income students--such as the Pell grants--or on federally-guaranteed student loans. This could enable disadvantaged students at the postsecondary level to choose for themselves the approach most likely to improve their employment prospects. Since Pell grants and guaranteed student loans can be used for education or vocational training at both public and private postsecondary institutions, assisted students would not be limited in their choice of career path. Further, they could choose to obtain their training from those institutions with the most successful programs. On the other hand, some postsecondary institutions currently receiving funds under the VEA might have to curtail their programs if this option was implemented. The elimination of VEA funds for postsecondary institutions is unlikely to pose a serious problem for them, however, since federal expenditures under the VEA are such a small proportion of total expenditures for vocational education. Less than a quarter of the VEA funds go to postsecondary institutions currently, while federal support through Pell grants and guaranteed student loans is more than six times as large.[26]

At the secondary level, a number of options are discussed, including:

- Modify the distribution formula for vocational education grants;
- Reallocate vocational education funds to compensatory education; or
- Absorb federal vocational education programs into youth employment programs.

In the discussion of these options that follows, emphasis is placed on the provision of compensatory education, since improve-

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26. Estimates for fiscal year 1979, from Stuart Rosenfeld, National Institute of Education.

ment in basic academic skills is the first necessity for most disadvantaged youths.[27]

Even for the majority of youths who do not lack basic academic skills, however, the specific skill training that is the mainstay of vocational education programs may be less useful, at the high school level, than more general education concerning possible career options, training in effective job-search techniques, and placement services. Options for redirecting vocational education expenditures for these purposes are discussed later, in Chapter VI.

Modify the Distribution Formulas for Vocational Education Grants to Secondary Institutions. All federal funds for vocational education could be distributed, by formula, to local school districts with high concentrations of students from poor families.[28] If the distribution formula was well targeted, this could result in a nearly three fold increase in federal expenditures for the disadvantaged at current funding levels. Either resources could be used freely, as local educators chose, or there could be requirements that some of the funds be used in specified ways. For example, compensatory education could be required for all enrollees performing below grade level. Enhanced guidance counseling, job-search instruction, and placement services could also be required.[29] Or, provisions could be included to encourage more cooperative education programs, providing part-time work experience with local employers. For seriously disadvantaged youths, the latter might require full subsidy of all costs to the employers, however.

This approach could increase the targeting of federal vocational education funds on the disadvantaged while maintaining some leverage over the vocational education system. Federal funds

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27. A growing body of evidence indicates that proficiency in certain reading and computational skills is required for performance in all types of occupations. See Basic Skills Proficiencies of Secondary Vocational Education Students (National Institute of Education, November 1980).

28. Concentration grants under Title I of the Elementary and Secondary Education Act were distributed in this way.

29. Congressman Kildee recently introduced a bill (H.R. 4974) that would require that at least 6 percent of VEA funds be used for guidance and placement services.

could be concentrated on the most needy schools, while programs in other school districts without a large poverty population would not be much affected. Remedial work in basic academic skills could be provided in conjunction with training in work skills--a combination that appears to enhance motivation for disadvantaged youths.

On the other hand, using available federal funds to supplement local expenditures for secondary vocational education in poverty areas might unnecessarily limit the opportunities of low-income youths, by tracking them into vocational programs and out of college-preparation programs. In addition, alternative programs would be necessary to reach the youths who have already dropped out of high school. Finally, localities no longer receiving federal funds under the new distribution formula might terminate their existing programs for the disadvantaged.

Reallocate Vocational Education Funds to Compensatory Education Programs. The federal contribution to vocational education programs could be shifted to compensatory education funded under Title I of the Elementary and Secondary Education Act (ESEA). If all of the funds appropriated under the VEA for use during the 1981-1982 school year had been reallocated to compensatory education at the secondary level, more than a million students--about 5 percent of the nation's secondary students--could have been served.[30]

This option could ensure that disadvantaged youths receive remedial work in basic academic skills, without prematurely tracking them into occupationally-specific vocational programs. Further, the concentration of federal funds for education on the most needy schools would be increased.

On the other hand, it might be difficult to motivate youths if remedial education was provided in an academic context.[31]

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30. Youth Employment and Education, pp. 31, 40. Estimated cost per participant for 1981-1982 is $650.

31. No national evaluations of secondary school compensatory education are available, although there are individual projects that have somewhat improved the performance of high school students in reading and arithmetic. See Jane Stallings and others, How to Change the Process of Teaching Basic Reading Skills in Secondary Schools (SRI International, May 1979).

Further, termination of the federal contribution to vocational education programs would almost certainly reduce expenditures on vocational education programs for the disadvantaged, although basic programs would not likely be much affected. Finally, since current funding levels under ESEA are insufficient to serve all of the eligible population even at the elementary level,[32] it would probably be necessary to require that some minimum proportion of any new ESEA funds be spent for high school programs to prevent them from being used to maintain programs in the elementary schools. Less than 5 percent of ESEA Title I funds are currently used for high school programs.[33]

Absorb the Vocational Education Programs into the Youth Employment Programs. Federal vocational education and youth employment programs could be combined and administered as one program for the economically disadvantaged through the CETA prime sponsor system.

This option would increase the targeting of federal funds on the disadvantaged, eliminate redundancy among federal programs, and reduce administrative costs.

On the other hand, this approach might also track disadvantaged students out of schools and increase federal support for work experience, which appears to be ineffective if not enriched by education or training. If the structure of current youth employment programs was not changed, the amount of federal money supporting skill training would be reduced and expenditures for work experience activities would increase since all vocational education classes provide some skill training while only about 13 percent of participants in federal youth employment programs (excluding the Job Corps) are enrolled in training activities.

These potential problems might be avoided by setasides from the youth employment programs to the schools for services for the disadvantaged, or for joint programs.[34] This would allow the CETA

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32. Youth Employment and Education, p. 56.

33. Ibid., p. 17.

34. At funding levels currently appropriated for 1982, however, setasides from Title IV-A (Youth Employment and Training Programs) and Title IV-C (Summer Youth Employment Programs) (Continued)

system to take advantage of educators' expertise, could give the federal government some leverage over education programs in schools, and might increase the focus on skill training. There would be problems in coordination, however, unless CETA programs were forward-funded.

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34. (Continued)
of CETA would have to be set at 80 percent in order to fund the same level of in-school programs for the disadvantaged as would be provided under the previous option. The setaside under Title IV-A of CETA is currently 22 percent. No set-aside is required under Title IV-C. Title IV-B (Job Corps) already provides intensive education and skill training for out-of-school youths in residential centers.

CHAPTER VI. IMPROVING LABOR MARKET TRANSITIONS

The transition from school to work or from one job to another is difficult for many young people. They are often poorly informed about the requirements of various occupational alternatives, about sources of labor market information, and about effective job-search techniques. These problems are especially severe for low-income and minority youths. Average unemployment rates for job-ready youths could be reduced by more and better labor market information, since that could reduce turnover (because of more satisfactory job matches) and reduce the duration of unemployment for those making a transition from school to work or from one job to another.

CURRENT GOVERNMENT EFFORTS

Schools, especially at the high school level, frequently do little to ease their enrollees' transition into the labor market. Guidance and counseling are generally well developed for those high school students who intend to go on to college, but services are less adequate for those who plan to seek employment. A survey conducted in the fall of 1976 by the Department of Health, Education, and Welfare found that 56 percent of high school districts were providing no formal placement services.[1] Even vocational education programs generally offer little help in this regard, since the emphasis in most programs is on specific skill training, with little attention to exploration of alternative occupations, instruction in job-search techniques, or job development and placement activities.[2]

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1. Youth Employment Act of 1979, Hearings before the Subcommittee on Employment Opportunities of the House Committee on Education and Labor, 96:1 (1979), Pt. I, p. 149.

2. In the 1978-1979 school year, only nine states spent anything for placement services in general vocational education programs. Nationwide, expenditures for placement activities were 0.2 percent of total (federal and nonfederal) expenditures for such programs. See Mary A. Golladay and Rolf M. Wulfsberg, The Condition of Vocational Education (National Center for Education Statistics, July 1981), pp. 155, 162.

The Employment Service

The principal public source of labor market information and placement assistance is the Employment Service, which is authorized by the Wagner-Peyser Act of 1933. The Employment Service is a federally funded state-administered system, with offices operating throughout the country in about 2,600 locations.[3] It is primarily a labor exchange, attempting to match the skills and interests of job applicants with the openings listed with the Service by employers. Services to employers include job analysis, studies of turnover and absenteeism, and assistance in job restructuring, along with help in filling their job openings. The primary service provided to jobseekers is referral to listed job openings. The Employment Service does nothing to develop the employability of job applicants, although it provides aptitude testing and counseling. Further, it serves as a source of information and referral for employment and training programs and apprenticeship programs in which job applicants might usefully participate. Agencies make some efforts at job development, in which they encourage local employers to list more of their vacancies with the Service.[4]

In contrast to private employment agencies, public Employment Service agencies must serve, without charge, all job applicants regardless of skill or aptitude. As a result, those with labor market disadvantages are disproportionately represented among Employment Service applicants. Of the 15.5 million applicants to the Employment Service in fiscal year 1979, 32 percent were minorities and 34 percent were economically disadvantaged.[5]

Youths, too, receive a disproportionate share of services from the Employment Service. In 1979, 39 percent of applicants were under 22. Links between the Employment Service and the high schools, however, have been weakened in recent years. In the 1950s and early 1960s, many local agencies of the Employment Service offered formalized counseling and placement services in high schools, but these in-school programs for high school seniors were cut back in the 1960s when the Employment Service was called

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3. Employment and Training Report of the President, 1981, p. 47.

4. Ibid., p. 50.

5. National Commission for Employment Policy, Sixth Annual Report (December 1980), p. 102.

on to provide more services for the economically disadvantaged, without additional resources.[6]

In fiscal year 1980, local Employment Service offices had on file about 16.6 million applications (new and renewal) and 8.1 million job openings listed by employers. During that year, nearly 6 million job openings were filled, about one-third each in white-collar and blue-collar occupations and about one-fifth in service occupations.[7] Hence, about 75 percent of the job openings listed with the Service are filled, but listings are only half the number of applicants.

In many areas, the Employment Service has difficulty building up its listings, especially for better jobs, because of a negative image arising in part from the fact that it serves so many disadvantaged applicants. In addition, job development activities by Employment Service staff are constrained by the growing numbers of unemployed who must be registered, as well as by the increasing responsibilities for compliance and enforcement that have been delegated to the Service.[8]

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6. Youth Employment Act of 1979, Hearings, Pt.I, p. 380. In the early 1960s the Employment Service had cooperative programs with more than half of the nation's high schools. Now, fewer than a quarter of high schools have such programs.

7. National Commission for Employment Policy, Seventh Annual Report (October 1981), p. 84.

8. In addition to its placement activities, the Employment Service has a number of other responsibilities under various laws, executive orders, and agreements with other agencies. Agencies are supposed to ensure that employers who use the Service abide by equal employment opportunity laws and federal labor regulations. Some beneficiaries of income transfer programs such as unemployment insurance, welfare, and food stamps are required to register for job placement with the Service. Employment Service offices are the certifying agents for employees eligible for the Targeted Jobs Tax Credit. They are responsible for certification of alien workers, for monitoring migrant farm housing, and for certification of eligibility for rural business and development loans. They have a major recruiting role for the Job Corps and other youth programs. See National Commission for Employment Policy, Seventh Annual Report (October 1981), p. 85; and Youth Employment Act of 1979, Hearings, Pt.I, p. 78.

Other services to jobseekers are also limited by inadequate resources. The results of a pilot study of the Employment Service in 1977 show that while 42 percent of jobseekers received at least one referral to a job, only 2.6 percent received counseling, 5.4 percent were tested, and 0.4 percent were referred to a training program.[9]

The amount allocated for the placement activities of the Employment Service in 1982 is $735 million. This will fund about 24,000 staff years, a reduction of about 6,000 staff years since the beginning of 1981.[10] An additional $20 million is appropriated for administration of the TJTC. Some additional resources are available for services rendered to CETA prime sponsors, local welfare agencies, and others. In 1980, funds from these sources increased total resources of the Employment Service by more than 60 percent.

In addition to direct work with clients, the Employment Service--through its state research and analysis units--helps to develop and disseminate comprehensive labor market information. The states collect data on state and local employment, unemployment, labor turnover, hours worked, and wages earned. They also project occupational demand. National labor market information is then developed from these sources by the Department of Labor.

At the local level, labor market information developed by the states can be useful to employers, jobseekers, and those who serve them. This last group includes not only Employment Service placement specialists, but also CETA administrators and school counselors.

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9. Terry R. Johnson and others, A Pilot Evaluation of the Impact of the United States Employment Service, Final Report (Menlo Park, Calif.: SRI International, for the U.S. Department of Labor, January 1979), p. 11.

10. Positions funded under the Wagner-Peyser Act were limited to 30,000 from 1966 through 1981, despite a large increase in the labor force over that time. See Youth Employment Act of 1979, Hearings, Pt.I, p. 381.

At the national level, labor market information can be used for planning education and employment policy. It is also used, by law, to determine local eligibility for various federal programs and in the allocation of program funds.

In recent years, it has become apparent that special efforts are required to make current labor market information more accessible to potential users. To help meet this need, the Department of Labor is in the process of developing training curricula customized to the labor market information needs of various user groups. Training curricula are currently available for Employment Service labor market analysts and job development specialists, for CETA planners, for CETA Private Industry Council staff, and for federal representatives from the Employment and Training Administration. The Department of Labor has also developed a curriculum intended for high school, CETA, Employment Service, and vocational rehabilitation counselors, in response to a perceived need for more effective counselor use of labor market information in order to improve career decisionmaking. Implementation of nationwide training for counselors with this curriculum is uncertain, however, because of recent budget reductions.

Job Search Assistance Programs

In recent years there has been considerable experimentation with self-directed placement activities. Demonstration programs have been implemented for high school youths, for dropouts, and for welfare recipients, among others. The services generally provided can include career exploration, counseling, instruction in job search and interview skills, job development, and job referral, although the mix and intensity of these components varies.

Although the technique is too new to assess long-term results, short-term results from self-directed placement programs are generally positive. The gains from short-duration job search training programs appear to be due entirely to their success at reducing the time jobseekers take to find a job. Within a year, employment rates for nonparticipants and participants are about equal. In-school placement assistance programs of longer duration--with some emphasis on personal development--may result in a long-term increase in employment rates, but evidence for this is weak as yet.

Results at three months after termination from the School-to-Work Transition demonstration, run by the Employment Service for disadvantaged in-school youths, show a four percentage-point increase in (full- and part-time) employment rates for participants relative to similar youths who did not participate (see Table 9). The employment advantage for participants increased to nine percentage points eight months after the end of the school year. The program provided five to ten hours weekly of instruction for a full school year, with emphasis on personal development as well as provision of the specific skills needed to get a job. Costs per participant averaged $1,100 over the three-year demonstration period.[11]

Another program for in-school youths--the Jobs for Delaware Graduates (JDG) program--increased the employment rate for participants by 10 percentage points three months after termination, increasing to 20 percentage points eight months after termination, compared to similar youths who did not participate (see Table 9). This program placed less emphasis on personal development than the School-to-Work Transition program and more emphasis on job development and placement activities. Services were available to youths not only during their last school year, but for nine months thereafter. Average costs per participant were $1,116 in 1980.[12]

Short-duration job-assistance programs for youths provided outside the school setting have shown nearly comparable short-run employment gains at lower per-participant costs. In a Job Search Assistance demonstration program run by the Job Factory, disadvantaged youths were given one week of intensive instruction in job-search techniques together with up to three weeks of supervised--and paid--job search activities at a 1980 cost per participant of $989. The "job-finding rate"--the proportion who had found, but

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11. Taggart, A Fisherman's Guide, p. 121; and letter from Shirley M. Smith, Employment and Training Administration, November 23, 1981. Participant costs for demonstration programs are likely to overstate the costs for an ongoing program, since demonstrations need to experiment with alternative program components and delivery mechanisms.

12. Taggart, A Fisherman's Guide, p. 121; and letter, Robert Taggart to Pierre Dupont, October 22, 1981.

TABLE 9. COMPARISON OF JOB SEARCH ASSISTANCE PROGRAMS

Program	1982 Cost per Participant[a] (dollars)	Average Number of Days to Find a Job		Employment Rate Three Months After Program Completion[b] (percent)	
		Participants	Non-participants	Participants	Non-participants
Long-Duration In-School Programs					
School-to-Work Transition	1,100	N/A	N/A	68	64
Jobs for Delaware Graduates	1,116	N/A	N/A	82	72
Short-Duration Programs					
Job Factory (1 week of instruction; 3 weeks of supervised job search)	989	N/A	N/A	63	48
Job Track (2 days of instruction; 3 days of support services)	200	13	25	44	38

N/A = Not available.

SOURCES: See footnotes in the text.

a. These are average costs per participant in 1980, but they include extraordinary expenses arising from the start-up and research requirements of a demonstration project. It is estimated that the cost per participant for an operational program would have been about 20 percent lower in 1980. Since inflation would have raised 1980 program costs by about 20 percent by 1982, the cost figures in the table represent costs in 1982 for ongoing programs.

b. For the Job Factory, program results are reported ten weeks after program enrollment.

not necessarily kept a job--ten weeks after program completion was 16 percentage points higher for participants than for similar youths who had not been participants, but nonparticipants had attained equal rates by the 45th week after program completion.[13] An even shorter-duration program called the Job Track gave two days of job search training--with three additional days of support services--to young Employment Service applicants, resulting in a gain of 13 percentage points in the job-finding rate and a gain of 6 percentage points in the employment rate for participants three months after the program, compared to similar youths who had not participated (see Table 9). Costs per participant were about $200 in 1980.[14]

Options

Two findings stand out in the previous discussion of current placement activities. First, the schools often do little to facilitate their students' transition from school to work. Second, passive job placement efforts such as those provided by the Employment Service could be substantially enhanced by instruction designed to make jobseekers more active and effective participants in the process.

Better placement services would not only help to assure that the benefits of employment and training programs are realized, but--if coordinated with schools--they might also reduce the need for employment and training programs among less disadvantaged youths entering the labor force. The two options discussed here--which are not mutually exclusive--are intended to enhance the placement services available to inexperienced jobseekers. They involve changes for the Employment Service, because the Service is the primary delivery agent for placement services. The options would:

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13. Andrew Hahn and Barry Friedman, "The Effectiveness of Two Job Search Assistance Programs for Disadvantaged Youth," Center for Employment and Income Studies, Heller School, Brandeis University (1981). Cost per participant without the stipend was $715, but the stipend proved to be necessary to induce continued job search activity by program participants.

14. Taggart, A Fisherman's Guide, p. 122.

- o Expand in-school placement services; and

- o Encourage Employment Service agencies to offer instruction in job search techniques.

Expand In-School Placement Services. Additional funding could be provided to Employment Service agencies to develop in-school programs providing employment counseling, job search training, and placement for youths who are ready to take full-time employment.

Linkage with the schools could not only help to reduce the unemployment and high turnover characteristic of youthful entrants to the labor market, but it might also help to improve the image of the Employment Service in the view of employers who must decide whether to list their vacancies with the Service.

This option could require increased federal expenditures, or some funding could be provided by redirecting expenditures under the Vocational Education Act. Based on findings from the JDG program, there would be about 1.3 million seniors nationwide in 1982 who could benefit from in-school job placement services. Providing services to all of these youths comparable to those provided by the JDG program would cost about $1.4 billion. Even if all funds appropriated for the 1981-1982 school year under the VEA--$674 million--were redirected for this purpose, only about half of the youths graduating in 1982 could be served using the JDG model of long-duration placement assistance with extensive job development efforts.

Existing VEA funds could be targeted on low-income school districts to provide long-duration placement assistance where it is most needed. Alternatively, less costly short-duration placement assistance could be provided in all schools. A substantial reduction in the time it takes to find a job could apparently be obtained even from a two-day program in job-search training, which could be provided in all schools to students ready to enter the labor market for a total cost of $260 million. Short-duration programs are not likely, however, to result in any long-term employment gains.

Encourage Employment Service Agencies to Offer Instruction in Job Search Techniques. Additional funding, earmarked for use in job search training, could be provided to agencies willing to introduce or expand this activity. Although Employment Service agencies have been instructed to initiate self-directed placement

services--such as job-finding clubs and job search workshops--funds earmarked for this purpose are probably necessary, for two reasons. Since some participants in self-directed job search programs will find employment that is not reported to the Employment Service, local agencies may be reluctant to risk their performance record by committing resources to self-directed activities.[16] Further, at current staff levels, personnel are pressed just to keep up with registration of applicants, so that resources may not be available for new self-directed activities.

The value of job search instruction to job seekers could be substantial, because the majority of job vacancies--and almost all of the better jobs--are not listed with the Employment Service. With instruction, applicants could become more effective participants in the placement effort, perhaps freeing some Employment Service personnel to develop more comprehensive and accurate information on the local labor market and to develop more and higher quality employer listings.

On the other hand, this option would involve increased federal expenditures at a time of great budgetary constraint. There would probably be some offsets from reduced income-transfer payments because of higher employment and earnings patterns for those receiving instruction, but the amounts are difficult to estimate.

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16. Performance standards have been modified recently to include not only placements into vacancies listed with the Service per staff year, but also employment obtained following a reportable service like job search training.

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